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The Small Business Adviser

**Boosting Revenue
With Repeat Sales**

**Adding Children
To Your Payroll**

**Strategies For
Franchise Growth**

1996



Small Business Outlook



Published by
U.S. Chamber of Commerce
JANUARY 1996 - \$2.50

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will slow a bit in 1996,
most signs point to a solid
year for small companies.*



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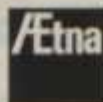
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PHOTO: WILFREDO LEE—WIDE WORLD

While key members of Congress and White House representatives met in December on the federal budget, most economists had already banked on an agreement in their projections for slow but steady economic growth in 1996. Cover Story, Page 10.



PHOTO: SUN CALLAWAY

Revenue doubled for decorator Rebecca Shearn, center, after she expanded her once-solo operation. Franchising, Page 41.

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Editor's Note

Capitalizing On Opportunities

Many entrepreneurs enter a new year with a set of goals, and one of their first tasks is to develop a plan for achieving them. To help in that planning, we offer this month's cover story, the "1996 Small Business Outlook."

One of the most striking projections uncovered by Senior Editor Jim Worsham in reporting this story was a consistent view among economists and small-business aficionados that we are on the cusp of a promising

decade of growth among small companies. (Small Business Administration chief Philip Lader, at right in the photo with Worsham, was one of many experts expressing that view.)

For the reasoning behind that longer-term forecast and for steps you can take to cash in on it—as well as to learn the short-term outlook—see our story, beginning on Page 10.



PHOTO: LAURENCE L. LEVIN

One of the hottest avenues to business expansion is the Internet. And big businesses aren't the only ones hurrying to get on line. Don't miss our story on Page 29 about how small companies are using the global computer network to get ahead.

In our Franchising Special Guide, on Page 41, several franchisors shared their growth strategies with Associate Editor Roberta Maynard. Some of the details may spark ideas that could invigorate your company, whether it's a franchise or not.



ILLUSTRATION: DEBORAH LEIGH McDONALD

Sometimes, family-business owners add their sons and daughters to the payroll to foster the children's interest in the business and to help it survive to the next generation. In the Small Business Financial Adviser, on Page 33, we highlight some considerations to be weighed in paying children for their work.

These are just four of the stories in this issue aimed at helping you and your company grow. There will be many more in the year ahead.

Best wishes for a happy and prosperous new year from all of us at *Nation's Business*.

Mary Y. McElveen

Mary Y. McElveen
Editor



PHOTO: RICHARD SHOOK

An idea for a skiing accessory put David Leinberger on unfamiliar ground. *Managing Your Small Business*, Page 20.

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The IRS Is Trying To Pass The Buck



In regard to your December article "Shaky Declarations Of Independence," the Internal Revenue Service would love for all employers, large and small, to be the "tax keepers" for all workers. The IRS loves the free book-keeping services that employers provide already. If the IRS could get everyone, including independent contractors, under the oversight of employers, how much easier it would be for the agency to collect taxes. And an employer is easier to go after for fines and penalties.

I feel that if an employer uses an independent contractor and issues him or her a 1099 form—which notifies the contractor, the IRS, and the state where the contractor lives of the amount of payments the employer has made to the contractor in the previous year—then the employer has done his or her job.

The IRS has no right to challenge so many workers. Most contractors, I believe, are honest and will pay their fair share.

*Donna L. Mitchell
Business Manager
RI-EL-DO, Inc.
Medford, N.J.*

Giving Due Credit To The New Congress



Like a refreshing, cool breeze on a sweltering summer day, your editorial in the December issue was very welcome. Kudos for giving credit where it is due regarding the start Congress has made to correct the many ills that previous Congresses have foisted upon us.

I, for one, am sick and tired of the same old story every day pushed forward by most of the media, and I say thank you for having the guts to report it "like it is."

I realize that the editorial was not the first time you have reported on the effort the new Congress is making to correct the anti-business laws that have proliferated during the past 60 years, but it's always good to see it in print.

Perhaps if people continue to see that they're not alone in their thinking, they will be less inclined to become fainthearted and to believe all is lost and nothing can be done. *Nation's Business* has every right to be proud of a job well done.

*Paul M. Smith, Manager
Sweetwater Hotel
and Convention Center
Sweetwater, Tenn.*

You Want To Be In That Number



Bravo on your Free-Spirited Enterprise article in November about the cruise marketer with the 800 "vanity" number. As a teleservices professional, I frequently see how 800 and 888 numbers can give a business a competitive edge.

The article was correct in pointing out that it is critical to select a number that accurately communicates the service or product being offered. A well-chosen



ILLUSTRATION: MICHAEL ROSE

number helps to eliminate confusion.

There are several other factors to consider in the selection and use of an 800 or 888 vanity number:

■ When communicating a vanity number, present the spelling and the actual digits the word represents. It's frustrating to hunt around the telephone keypad.

■ If the number is being communicated on radio, always speak the words and digits. For example, 1-800-HIGH-SEA could be misconstrued as 1-800-HIGH-SEE or some other combination.

■ Try to acquire any numbers that could be confused with your number and have them routed to your operators.

■ As 888 numbers become available, obtain the same vanity numbers to eliminate any confusion customers may have with your 800 number.

Your article hit the mark—800 and 888 numbers are powerful tools when strategically integrated into a company's marketing mix.

*Ken Dobbins, Director
Targetbase Marketing
Greensboro, N.C.*

A Wellspring Of People Who Know The Score



Your October cover story, "Minority Business: The New Wave," captures the essence of a growing strength within the small-business community—

minority entrepreneurs. Your coverage of the growth of minority-owned small businesses relays vital information about this trend.

As president of the Service Corps of Retired Executives Association, I too have seen a consistent rise in the number of minority entrepreneurs entering small-business markets.

For many years, I have served as a business adviser to aspiring entrepreneurs. For those people looking to give back to the community, SCORE offers a variety of volunteer opportunities, and for those seeking advice, SCORE can help.

Your readers can call us at 1-800-634-0245 to volunteer or to receive a referral to a business adviser. We have 13,000 volunteers throughout the nation who counsel owners of small businesses or those seeking to start a business.

Your magazine is a pleasure to read—it provides tangible information that small businesses can put to use right away.

Bill Trueblood

President

Service Corps of Retired Executives Association
Washington, D.C.

A Tug Of War Over 'March Madness'

In a November Direct Lane item about product licensing, you incorrectly identified the trademark "March Madness" as the property of the National Collegiate Athletic Association.

For almost 90 years, the Illinois High School Association has sponsored a state basketball tournament, which has come to be known as "March Madness." As the result of its long and extensive use of this mark, the IHSA has developed valuable rights to the mark, which it exclusively owns.

The mark is also protected by a federal trademark registration owned by the IHSA.

Please advise your readers that the IHSA licenses its mark to businesses and that inquiries about licensing should be addressed to H. David Fry, Executive Director, Illinois High School Association, 2715 McGraw Drive, P.O. Box 2715, Bloomington, Ill. 61702-2715.

H. David Fry
Executive Director
Illinois High School Association
Bloomington, Ill.

[Editor's note: The NCAA maintains that it owns common-law rights to the phrase

"March Madness" when it is used in association with its annual basketball tournament. The matter is the subject of an ongoing dispute between the NCAA and the IHSA.

Another Helpful Hint For Computer Users

In your November article "Home Is Where The Office Is," you correctly point out that the computer monitor should be below eye level. Even though our old typing teachers taught us never to look at our fingers while typing, the fact is that constant eye movement between screen and keyboard is required, and I place my monitor as low and close to the keyboard as possible.



ILLUSTRATION: MICHAEL BODD

Another important fact I have never seen mentioned is that a good way to deal with reflection from overhead lights is to tilt the screen forward until you cannot see any reflection while the monitor is off. I find that an add-on glare screen, which reduces glare by having one or both surfaces etched, can blur detail to some extent.

Mike Morrison
Frames N Things
Chatsworth, Calif.

Corrections

The November special report on luxury cars mistakenly stated that a supercharged 3800 Series II V-6 engine is standard on the Pontiac Bonneville SSE. The supercharged version of the engine is standard only on the Bonneville SSEi.

In "On-The-Shelf Technology" [Making It, December], Electronic Imaging Services founder Steve Bardwell and Executive Vice President Tim McKenzie were misidentified in the photo caption. Bardwell was at left in the photo.

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- Experts forecast a slower-growing economy for 1996, but the environment should be good for small business.

4814 Increasing Revenue With Repeat Sales:

- The future of many firms may lie in generating new revenue from current customers.

4815 Staking A Claim On The Internet:

- Businesses are flocking to gain a presence on the World Wide Web, where small firms are on equal footing with the big players.

4809 Growing More By Doing Less:

- Outsourcing enables firms to focus on core activities and build in flexibility by farming out activities best done by others.

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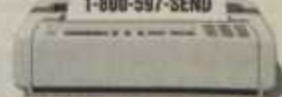
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Entrepreneur's Notebook

By Bill Martin

Using Barter For Cash Management

For any business, maintaining a balanced cash flow means a series of trade-offs.

For me, maintaining the cash flow of my 4½-year-old fitness-equipment company, U.S. Fitness Products, in Raleigh, N.C., literally has meant trading my equipment for goods and services through bartering. Since joining the local chapter of Business Exchange International (BXI), a Los Angeles-based bartering network, in 1992, I have used barter dollars to "pay" for carpentry work, office furniture, and the plumbing, electrical, and lighting systems in our current showroom—a total value of \$20,000 to \$30,000.

Barter also has paid for several trips and \$1,700 worth of transmission work on my truck. As we prepare to relocate, it's my intention to again remodel and outfit the showroom through bartering. In fact, before buying anything, I examine the pros and cons of bartering for what I need rather than laying out cash. By doing this, I've expanded the business and "sold" slow-moving goods without taking on debt or losing money.

With BXI, the process works as follows:

Businesses and individuals join a local chapter for a small fee. For us, it was \$300. Trades with other network members are paid in "barter dollars," which are put in a network account that functions like a bank checking account. (Taxes and shipping costs

are paid outright, separate from barter dollars.) Hard currency can figure into trades: If the item or service retails for more than \$1,500, the seller can accept the total value in barter dollars or a combination of up to \$1,500 in barter dollars plus cash.

Network members can refuse any trade,

ices or items you're likely to want with the quality you demand. You must also try to assess the demand for your products or services. If they cater to a limited audience, you may find limited trading possibilities.

Once you join, bartering becomes as much a tool for inventory control as for cash management. If I have items on the showroom floor that aren't moving, I can offer them for barter, allowing me a bigger profit—albeit in barter dollars—than if I sold them at a discount, and opening up space for equipment that's hot.

While bartering does not involve haggling—the prices are set, and the only decision is whether to accept an offer and how payment will be structured—it does involve hands-on management. Most entrepreneurs don't need something else to put their hands on—other than cash. If you think of bartering as a means of getting or keeping that cash, it's easy to see how it has a place in a business plan.



PHOTO: JOEL HALL

A bartering network has helped Bill Martin minimize cash outlays at his fitness-equipment company.

although trading is the only means of acquiring barter dollars. Accepting a trade—and deciding whether to do it entirely in barter dollars or as a combination of exchange units and currency—should depend on your business needs and goals.

Currently, I'm doing a lot of bartering knowing that I'll use as many barter dollars as possible to limit my cash outlay during our move. At other times, I have limited or held off on trades to accommodate cash-flow needs. Barter sales can approach 5 percent of our annual sales of about \$1.5 million.

While there are additional benefits, such as nationwide networking and annual bartering shows, which expand your potential market, bartering has risks. It's important to consider barter dollars as real money. Frequently, you see people at bartering shows getting caught up in buying things they wouldn't purchase with hard cash.

Before signing with any bartering network, check out how long it has operated in your area, the number of members locally and nationally, and whether member businesses are well-established and offer serv-

For More Information

Bartering networks operating in your area can be found in the Yellow Pages under Barter & Trade Exchanges. A trade group, the International Reciprocal Trade Association, can help you check out a network's background and reputation; send a stamped, self-addressed envelope to IRTA, 6305 Hawaii Court, Alexandria, Va. 22312.

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What I Learned

A bartering network can help a company maintain smooth cash flow, but there are risks to avoid.

Bill Martin, president of U.S. Fitness Products, in Raleigh, N.C., prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on running or starting a business are invited to contribute to *Entrepreneur's Notebook*. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.

FUTURE FAX

Try This New Information Delivery System, RIGHT NOW

You're talking with your customer, answering questions and describing your products. He wants to see some printed information. You scribble his name and address on an envelope, and put a brochure in the mail. A few days later, you remember the client, fumble for the address and your tickler file reminds you to call back and follow up.

"What do you think of my products? Did you get my brochure?" "No."

He never got it. It got lost in the mail, it came to the wrong office. He thought it was junk mail and trashed it. Maybe you forgot to send it. It doesn't matter what excuse you use, the fact is that you lost a sale. In the age of fax and e-mail, you might as well use courier pigeons as the post office. Yet mailing printed material is business as usual for most business owners.

What about fax technology? If the client asks for printed information, you take his fax number, drop papers in the fax hopper, and he gets your material right away. That's better, but it's still old-fashioned.

There is a smarter way to get information to prospects. Consider this: You give your client your special phone number. The system asks what information he wants and requests his fax number. He keys in his fax number and hangs up. A few seconds later the prospect gets your printed information along with a menu of additional options. The menu can say "Extension 101 is a product price list. Extension 102 has information on our financing plan. Extension 103 is the specifications on our deluxe model." The customer then calls back for more details Right Now. Your customers can get the information they want, right now, right in their fax machine, or the fax machine of their boss. And it happens NOW. That's how MarketFax delivers information.

A New Technology

MarketFax is a new technology from Alternative Technology Corporation, Hastings-on-Hudson, N.Y. It combines new computer technology with voice cards, fax boards, and easy to use software to create a whole new type of information system. It's a better way to deliver information. It is instantaneous. It responds to the client when they are interested. It gives your clients exactly what you want them to see. It's an entirely new service and it can work for you. It's easy for your clients to use, and changes how you get information into the hands of people who want it.

To compete in today's rapidly changing global markets, savvy business owners use new technology to improve channels with clients.

Here's an example: The Boston Computer Exchange, took all the documents they normally mailed to their clients and put them into the MarketFax system. They have price sheets, news items, hot products, policy statements, listings forms, nine-year price comparisons, order forms, and everything else. It's all available to any client anywhere in the world who has a fax machine. Americas Trading Company in New York uses MarketFax to list auctions and inventory liquidations in a timely fashion. Everything they have in writing is available to all clients; anytime; to any fax machine.

The Complete Package

OK, so it delivers information right now. It must be hard. NO. The best part of MarketFax is that it is as easy for the owner to use as it is for the customer. The system is delivered as a complete package based on a personal computer, with a scanner, some specialized computer boards and amazing software. All you do is plug it in, scan in your documents and begin telling people how to get it. That's it. It's easy.

Now when a client asks for more information on your products, you answer, "Give me a fax number and you'll have it right now." Your customer can take care of their own information. Anytime. To Any fax machine. When they are HOT. You can also get prospects' phone numbers for your sales people to contact.

MarketFax has enough extra capacity that you can lease extra extensions to friends and other businesses to help defray costs. MarketFax can store codes for up to 1,000 separate multipage documents.

Savvy business owners are finding hundreds of new uses for this kind of fax response technology. MarketFax can be a business in itself. You could connect it to a 900 phone line and sell information on your own or other people's products.

Try it. Right Now. Call 914-478-5906. Try Extension 606 for The Boston Computer Exchange. Ask for Extension 614 for Americas Trading Company as an example. If you want more information on MarketFax, punch in Extension 727.



President & Founder Tom Kadala says "Savvy business owners are finding hundreds of new uses for this kind of fax response technology."

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Dateline: Washington

Business news in brief from the nation's capital.

REGULATION

OSHA Loses In Ruling On Multiple Penalties

Business recently scored a major victory when a review board disallowed a penalty-setting practice of the Occupational Safety and Health Administration. An independent review board derailed an effort by the agency to impose multiple penalties on companies for single violations of workplace safety or health rules.

OSHA, part of the U.S. Department of Labor, enforces the Occupational Safety and Health Act of 1970 and imposes penalties for violations of that law. (See the accompanying chart.)

In January 1993, the federal safety agency fined Arcadian Corp. in the wake of a 1992 explosion at the firm's fertilizer plant in Lake Charles, La. In this instance, OSHA multiplied the \$50,000 penalty for a violation of its "general duty" clause, which requires a safe and healthful workplace, by the 87 employees exposed to the mishap, for a total fine of \$4.35 million. The maximum fine for a single violation is \$70,000.

In another case, the agency fined Hartford Roofing Co., of Glastonbury, Conn., \$210,000 for its failure to put up a safety railing on a roof where its employees were working. That amount was determined by multiplying the proposed \$35,000 penalty by the six workers who had been exposed to the hazard.

Both companies appealed the legality of assessing multiple penalties for a single safety violation to the OSHA Review

Workplace Safety And Health

Year*	Violations	Fines Levied
1985	218,694	\$ 11,218,904
1986	250,551	14,076,612
1987	266,856	22,371,219
1988	289,008	34,471,373
1989	333,206	53,855,085
1990	381,694	82,220,754
1991	387,629	124,341,507
1992	362,372	173,390,322
1993	321,831	160,136,983
1994	324,642	182,887,265
1995	269,871	158,838,609

*From Oct. 1 of the preceding year through Sept. 30 of the year listed.

SOURCE: OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION OF THE U.S. DEPARTMENT OF LABOR

Commission. The commission is an independent group appointed by the president and authorized to adjudicate cases resulting from OSHA rulings. The U.S. Chamber of Commerce filed a brief in support of the companies.

The Review Commission ruled that only one fine can be proposed by OSHA for each safety or health violation.

—David Warner

Regulatory 'Correction' Is Law; Others Await Senate Action

President Clinton has signed his first "Corrections Day" bill, the first such measure forwarded to him by Congress. The bill,

approved by Clinton Nov. 20, requires federal regulators to distinguish between petroleum oils and animal and vegetable oils when issuing anti-pollution rules.

Corrections Day bills are aimed at repealing laws or regulations deemed unwise or unworkable. In the House, they are considered under expedited debate rules, and approval requires 60 percent of the votes cast. In the Senate, they require only a majority vote for passage.

The oils bill was praised by House Speaker Newt Gingrich, R-Ga., as it cleared Congress and headed for the White House. "When you've got a regulation as absurd as this one—equating salad oil with heavy crude oil—it clearly needs correcting," said Gingrich, who instituted Corrections Day.

The measure changes part of the Oil Pollution Act of 1990, passed in the wake of the Exxon Valdez oil spill. The act seeks to reduce the risk of oil spills and improve the response to those that do occur. Under the Corrections Day bill, vessels carrying animal and vegetable oils won't have to meet the same environmental standards as those transporting petroleum oils. The rest of the act remains unchanged.

As of Dec. 1, eight other Corrections Day bills had been passed by the House since it began the new procedure last summer, and seven awaited Senate action. In one case, differences between the House- and Senate-passed versions of a bill had to be resolved.

—James Worsham

TAXES

Social Security Tax Base, Earnings Limit Increase

The amount of an individual's wages subject to Social Security payroll taxes (FICA taxes) in 1996 will be \$62,700, up from \$61,200 in 1995.

There is no limit on the amount of wages subject to the 1.45 percent Medicare payroll tax. However, Medicare reforms are under consideration in Congress, and program changes—including the payroll-tax provisions—are possible in 1996.

The Social Security tax rate paid by employers and wage earners will remain

the same—7.65 percent of wages (6.2 percent for Social Security and 1.45 percent for Medicare). For self-employed individuals, who pay both the employer's and the employee's share of the tax, the rate remains 15.3 percent of earnings (12.4 percent for Social Security and 2.9 percent for Medicare).

Social Security recipients will receive a 2.6 percent cost-of-living increase beginning with their January 1996 checks. The same adjustment is used for some private-sector pension plans and other federal benefits payments.

In addition, the earnings limit for Social Security recipients aged 65 to 69 will

increase to \$11,520 in 1996, up from \$11,280. For every \$3 earned over \$11,520, the recipient will lose \$1 in benefits. A bipartisan proposal in Congress would lift the cap to \$14,000 in 1996 and have it reach \$30,000 by 2002.

Individuals aged 62 to 64 will lose \$1 in benefits for every \$2 earned over \$8,260 in 1996, up from \$8,160 in 1995.

There will be no earnings penalty for individuals aged 70 or older.

The maximum monthly Social Security benefit for a worker retiring at age 65 in January 1996 is \$1,248, up from \$1,199 a year earlier.

—Albert G. Holzinger

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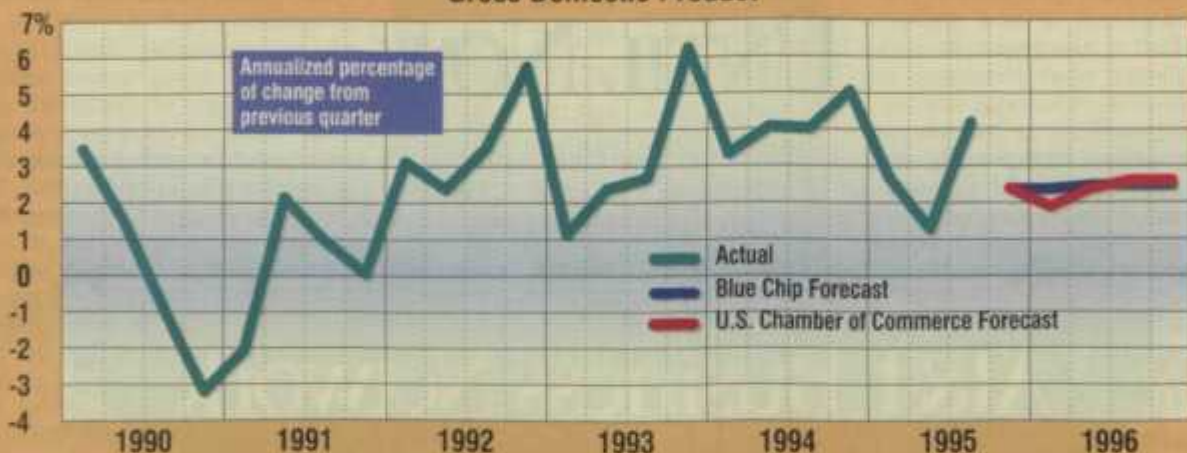
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Slow But Steady

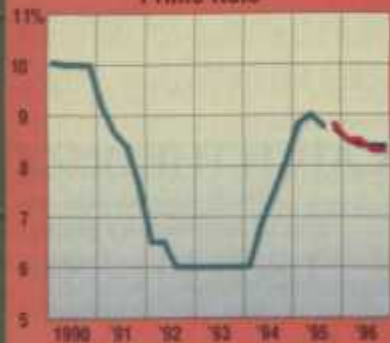
Economic Growth

Gross Domestic Product



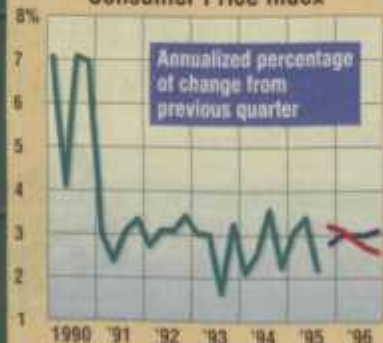
Interest Rates

Prime Rate



Inflation

Consumer Price Index



Unemployment

Percentage Of Labor Force



SOURCES: U.S. BUREAU OF ECONOMIC ANALYSIS; U.S. BUREAU OF LABOR STATISTICS; FEDERAL RESERVE BOARD; BLUE CHIP ECONOMIC INDICATORS; BLUE CHIP FINANCIAL FORECASTS; U.S. CHAMBER OF COMMERCE

OUTLOOK '96

Experts say the 1996 economy will look a lot like 1995's, although with less growth. But the environment should be good for small business.

By James Worsham



Larry Stanley is reluctantly planning to prune his list of customers this year. He's letting go of the ones whose small purchases cost him too much in inventory space, preparation, and packaging at his parts-distribution company, Empire Bolt & Screw Inc., in Spokane, Wash.

Andy Hines, on the other hand, has combined Shrub & Turf, his lawn-care business in Athens, Ga., with a bigger company. The larger firm, in which he has become a stockholder, will now perform many of Shrub & Turf's administrative tasks and will use his operation to expand in the South.

As they enter the new year, Stanley and Hines are heeding the advice of experts: Reduce operating costs and focus more on your product or service as the economy slips into a slow but steady path of moderate growth, minimal inflation, stable interest rates, and level unemployment.

Stanley expects "real slow growth" in the eastern Washington and northern Idaho region served by his 14-employee firm. "We must be looking at ways to reduce overhead and cut expenses," he says. "We have to separate those customers who don't contribute to the bottom line." Echoing the words of many small-business gurus, he adds, "You really have to work smart."

Hines sees the economy in Georgia "muddling along" in 1996, but, as a result of the merger Dec. 1 with Emerald Green Lawn Care of Indianapolis, he plans to expand his seven-employee firm more quickly than he could have on his own. "They've been wanting to get into the South," he says. "We're helping them do that." With new capital, he hopes Emerald Green/Shrub & Turf can double 1995 sales within two years to \$1 million.

Stanley and Hines should be able to execute their

plans without fear of any major economic upheaval, according to economists and others in the field. While those experts may disagree on some details, they generally see 1996 as looking a lot like 1995, although they project slower economic growth.

"Think of 1996 as the last two or three years but slower," says small-business analyst David Birch, president of Cognetics, Inc., based in Cambridge, Mass. "More of the same will be the rule. We see things as hovering toward average."

But a slowdown won't necessarily be bad for small firms and entrepreneurs. David Wyss, research director for DRI/McGraw Hill, based in Lexington, Mass., says 1996 "will be a better year for small businesses" because of expected lower interest rates and stable inflation.

Martin Regalia, vice president and chief economist for the U.S. Chamber of Commerce, agrees. "It's going to be a good environment for small business," he says. The U.S. Chamber is forecasting a 2.5 percent rise in the GDP—the gross domestic product, the broadest measure of the nation's output of goods and services—plus lower interest rates and low inflation.

Although enactment of an agreement to balance the federal budget could provide a psychological boost to all businesses, Regalia says most economists have already factored a budget deal into their forecasts. The markets, he says, will "continue to grade" the performance of Congress and the president as they move toward passage, enactment, and implementation in the coming years of a budget agreement. "They've already given it their vote of confidence."

Like Regalia, most economists are forecasting a 2 to 3 percent rise in the GDP. That would be a slower

rate of economic expansion than the nation experienced in 1994, when the GDP was up 4.1 percent, and 1995, when it was projected to rise 3.2 to 3.3 percent.

Indicators recently have pointed to a slowing economy. The Commerce Department said in early December that the index of leading indicators dropped half a percentage point in October, the biggest drop since April.

And the National Association of Purchasing Management reported its index of manufacturing activity dropped in November for the second month in a row, to 46.5 percent. A figure below 50 percent usually indicates a slowdown.

Regalia notes that with a slower economy, big companies won't be using up so many of the resources, such as capital, that small firms require for expansion. "You'll see some of the problems the little guys face will be less acute," he adds.

A top Clinton administration official agrees that the outlook is brighter for small firms. Philip Lader, who heads the Small Business Administration, forecasts a "very, very healthy" economy for small business in 1996: "You look at access to capital, consumer confidence, and other major indicators, and you recognize that it's an extra good time for small-business formation and growth."

If there is a dark cloud on the economic horizon, it is slower spending by debt-heavy consumers, who account for two-thirds of the GDP. Indeed, the Commerce Department reported that retail sales declined in October, after monthly gains of less than 1 percent in August and September—a sharp contrast to 1994, when sales climbed steadily during the pre-holiday months. That will discourage price increases not only at the retail level but throughout the supply chain.

"A lot of my customers sell to the big ones, subcontractors that might sell to Ford or GM, and there isn't anybody willing to accept any price increases out there right now," says Ronald R. Lyons, president of Stewart Brothers Paint Co., an Alliance, Ohio, company that makes specialty paints for industry.

Nonetheless, as the economy expands, there will be a need for more small businesses, says William Dunkelberg, professor of economics and director of the Center for Entrepreneurship at Temple University in Philadelphia. He attributes that need to continuing growth in service industries and in outsourcing as well as to prolonged expansion of the economy. "As long as the economy is growing, you'll need more firms," he says.

And that means more jobs. Indeed, com-

Hot Spots In A C

Economic Expa

GDP Percentage Increases Over Previo

Source: BEA, 1995



Entrepreneurial Hot Spots



The Top 10 Large Metropolitan Areas

1. Salt Lake City/Provo, Utah
2. Atlanta
3. Nashville, Tenn.
4. Raleigh/Durham, N.C.
5. Charlotte, N.C.
6. Birmingham/Tuscaloosa, Ala.
7. Phoenix
8. Orlando, Fla.
9. Indianapolis
10. Washington, D.C.



The Top 10 Small Metropolitan Areas

1. Las Vegas
2. Huntsville, Ala.
3. Austin, Texas
4. Boise, Idaho
5. Albuquerque, N.M.
6. Sioux Falls, S.D.
7. Hickory, N.C.
8. Pensacola, Fla.
9. Green Bay/Appleton, Wis.
10. Springfield, Mo.

Source: PowerRank Inc.

ooling Economy

sion, By Region

Year: 1995 (Projected) 1996 (Forecast)



OUTLOOK '96



panies with fewer than 500 employees account for half of U.S. sales and provide more than half the nation's jobs. More important, nearly half of all new jobs are created in firms with fewer than 20 employees.

The U.S. Chamber's latest bimonthly Business Ballot poll of its members, conducted in October, found that 22.4 percent of respondents said they expect to add workers in the next six months, continuing an upward trend since the spring. Only 11.9 percent planned to cut jobs, and 65.7 percent planned no change.

Lack of high drama in the forecasts for 1996 belies the fundamental changes under way in the nation's economy. In Washington in mid-December, Capitol Hill's ruling Republicans and President Clinton were still in protracted negotiations over a multi-year balanced-budget plan that would, if enacted, impose some of the most far-reaching changes in national government in generations.

Even though all details were not worked out, the overall plan would reduce the federal role in human services, business regulation, and marketplace intervention. Several major federal functions, their funding levels reduced, could be transferred in toto to the 50 states, and fewer and smaller benefit checks would pop out of federal computers.

While this year's presidential election adds uncertainty to the future, it's clear that the choice for voters now is not one of direction but of degree: No one is talking about expanding government programs; everyone is discussing whether to reduce them or eliminate them and how fast cuts or reductions in increases should come.

The result for the economy, the Republicans say, will be more money for investments at lower interest rates and with fewer federal requirements and their accompanying compliance costs for business. In turn, they maintain, that will mean more economic activity, additional jobs, and higher incomes for all.

But some of the most important developments for small business are taking place far from Capitol Hill and the political fights over deficit reduction. For example, the rapid advances in communications and technology, along with plunging prices in those fields, now enable small firms—even those operated out of garages and spare bedrooms—to be players in a global market.

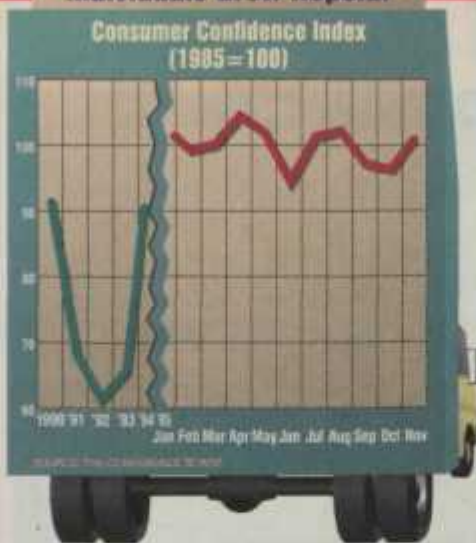
"Their use of technology is going to be more and more important, especially if they're dealing with larger companies, which will force technology on them," says

Larry Winters, assistant vice president for small-business and express services at Dun & Bradstreet Information Services.

And as large companies downsize, break up, and shed many of their operations, they are creating opportunities for small businesses. For example, a big company may outsource not only its janitorial requirements but also much of its administrative work, creating all kinds of new niches for small businesses to fill. (See "Growing More By Doing Less," in the December issue.) And they often lay off senior, experienced people, many of whom either start firms or become key players at existing small businesses.

Another fundamental change that has resulted in the outlook for a steadily growing economy in the years ahead is the maturation of the baby boomers, the post-World War II generation of Americans who are now beginning to celebrate 50th birthdays. "So many of the swings caused by the entry of the war babies are over. The boomers are in the game now," says Cognetics' Birch. "There's not nearly as much uncertainty anymore."

But many of those boomers have also become laden with debt, and they will be tough, value-conscious consumers in 1996



and the years ahead. And it's that consumer caution that is expected to help moderate economic growth in 1996.

According to the consensus view of 51 business and academic economists surveyed monthly by *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*, the GDP will grow by 2.6 percent in 1996, following a projected

3.2 percent rise in 1995. The Blue Chip consensus also projects the consumer price index, the major indicator of inflation, will rise 2.9 percent in 1996, the same as forecast for 1995. Unemployment is expected to be 5.7 percent throughout 1996, up from its 5.6 percent projected level in 1995. The prime interest rate, the rate banks charge their best customers, is forecast to start the year at 8.5 percent in the first quarter before slipping to 8.4 percent. In late 1995, the rate was 8.7 to 8.8 percent.

"The consensus clearly points in the direction of the soft landing we've heard so much about this year," says Randall Moore, the top editor of the two Blue Chip publications, both published by Capitol Publications, Inc., of Alexandria, Va. Moore said the Federal Reserve Board's tightening of interest rates in 1994 slowed the pace of growth, adding life to the current expansion.

The U.S. Chamber's forecast, which is part of and similar to the Blue Chip consensus, puts GDP growth at 2.5 percent in 1996, following an expected 3.3 percent rate for 1995. The CPI is expected to rise 2.9 percent, the same as its projected 1995 rate, according to the Chamber, and unemployment will increase to 5.7 percent from

Position Your Firm Now For Growth

Because 1996 is expected to be a year of steady growth with no major downturns for small business, it's a good time to prepare for the 21st century. Here are suggestions from various experts on how small firms can do that in 1996:

- 1. Join the technological revolution.** Being left behind could be fatal. Install or upgrade computer hardware and software to communicate with suppliers and customers worldwide, or at least get a personal computer for keeping your books and doing your taxes.
- 2. Rethink your location.** Some regions and cities offer much more promise for business than others, and you might have to move to ensure a bright future. David Birch, president of Cognetics, Inc., in Cambridge, Mass., says that if business seems slow where you are now, chances are things won't get any better. "You need to rethink geography," he says. "Can you make a living where you are?"
- 3. Keep your debt low, but establish a line of credit** so you'll have some cash available for 1997 and beyond, when, according to many economists, the economy will take off. Larry Winters, an assistant

vice president for small-business and express services at Dun & Bradstreet Information Services, a nationwide credit-information agency, suggests: "Make a solid relationship with a few bankers."

- 4. Cut costs, even if you just did, so you can keep your prices as low as possible.** Consumers have lots of debt, but they will still be buying. They want value, however, and are used to discounts. They won't like price hikes.
- 5. Hire carefully.** There will be a lot of good people on the block as big companies downsize and professionals seek to stay in the work force longer. But not everyone can make the shift from a big corporate culture to a lean and agile small business. Advises David Brophy, professor of finance at the University of Michigan Business School, in Ann Arbor: "You will constantly have to work on finding good employees and keeping them."
- 6. Consider establishing a strategic partnership with another company,** whether it's as big as your company or bigger. It might want to finance some research or experiments that you could carry out, and if something works, you

could both win. "It's a great time to be a little more aggressive with a pool of money you can afford to risk," says Winters. "This is a good time to test."

- 7. Get your books in order.** Many lending decisions will be made quickly with new, computer-aided procedures, so have your personal and business financial statements ready to move fast. "If you don't have them," says Brophy, "you can't even open a dialogue with a bank."
- 8. Hire outside firms to handle some of your administrative and maintenance tasks.** Then focus on the products or services that will spell success or failure for your business.
- 9. Consider exporting, even if you're in a remote area of the country.** With a personal computer, you can talk to anyone anywhere through the global web of public and private computer networks. Adds Birch: "It doesn't take long to build up a global following for a product."
- 10. Don't panic—ever.** The economic landscape is changing rapidly, and you'll need to have a cool head to navigate your way through it.

Firms' Optimism Rises



last year's projected 5.6 percent. The prime rate is expected to drop to 8.5 percent in the first half of the year, then to 8.3 percent for the second half.

The Chamber's Regalia says that despite the very sharp GDP swings between the second and third quarters of 1995, the economy in 1996 "appears headed for a period of modest growth with close to full employment (defined as about 5.5 percent unemployment), stable inflation, and steady interest rates."

Other economists, echoing the Chamber and Blue Chip forecasts, say that although 1996 will see only modest growth, it means good long-term prospects for business, assuming there's no destabilizing national or international event, such as a war or an oil crisis, to upset the outlook.

Nonetheless, economists generally view continuing consumer spending as the most immediate concern, especially for small businesses. "The consumer market is a tough one," says Mark Zandi, chief economist for Regional Financial Associates, based in West Chester, Pa. "Consumers have gotten used to and expect price breaks." In addition to consumer pressure, small retailers face increased competition from shopping malls, electronic retailing, and "category killers"—merchants who dominate their product lines.

In Des Moines, Iowa, Christopher Wass, president of Alphabet Soup, which owns two toy stores and a gift shop in the Des Moines-Ames region, is concerned about the spending slowdown, even though he's "pretty optimistic" about 1996. "If we have any concerns, it's reports about consumer debt levels," he says, "but it seems consumers are pretty optimistic about their future." Even so, Wass is not planning any price increases.

All in all, consumers still remain only cautiously optimistic about the future, as shown by data from the Conference Board, a New York-based research organization. While its Consumer Confidence Index has held fairly steady for the past year and

even gained a bit in November (see the chart on page 14), two subindexes show some differences. The confidence subindex for respondents' current personal economic situations is about 20 points ahead of the subindex for respondents' expectations for their situations in the next six months. In September 1994, the two measures were identical.

Around the country, the economies of all regions will continue to grow but at a slower rate than in 1995, according to Regional Financial Associates.

The GDP growth rates across the South and in the West will generally be higher than those in the Northeast and the

Midwest. (See the map on Pages 12 and 13.)

New England is expected to see slower growth than other regions as it recovers from defense cuts and job losses in major industries, especially insurance and banking, because of downsizing and mergers, says Wayne Ayers, chief economist of the Bank of Boston. He adds: "Small businesses have been the mainstay of the economy [in New England] over the last few years, and most of the job growth has come from small business."

The region from Pennsylvania and New Jersey through Virginia will expand more slowly because of slower population growth overall and, at least in the Washington area, cutbacks in federal procurement and employment, says David Pitcher, corporate economist for Bell Atlantic Corp. "There is not a really dynamic growth industry that's attracting population," he notes.

In the Southeast, Alfred G. Smith, principal economist with NationsBank in Charlotte, N.C., sees economic growth down from what it was 12 to 18 months ago. But he adds that "the whole region is benefiting from the expansion of production facilities, and generally those are in the high-tech areas."

The Midwest outlook is "sort of unexcit-

Adjusting The Numbers

Uncle Sam's number-crunchers are updating the ways they monitor the economy and produce the statistics that help guide government and business.

Beginning in December, there was a major revision in the method of calculating the gross domestic product, the nation's total output of goods and services. The Bureau of Economic Analysis not only updated the so-called base year used for the index but also changed the way it will be determined. The base year is the period with which comparisons are made.

As a result, the GDP figures will be more current and will reflect the marketplace more accurately. (Because economists' projections for 1996 were based on the previous system, those are the figures used in the accompanying article.)

Every five years, the bureau—a Commerce Department agency that is the government's principal collector of economic statistics—overhauls the calculation of the GDP. But this time, the approach is different. Instead of moving the base year forward five years (from 1987 to 1992), as would have customarily been

done, the base will be an average of the past two years.

And from now on, the base year will move annually so it will be the average of the two preceding years. Statistics experts call this method of calculation a "chain-weighted" system. It is aimed at solving the problem of the GDP exaggerating the sales of items whose prices have gone down in recent years while it understates the sales of items whose prices have gone up.

For example, a personal computer that could do what today's typical PC can do would have cost, say, \$25,000 in 1987, but now that computer costs only about \$2,000. For GDP purposes, however, the method of calculating the value of the sales of today's computers causes them to be overrepresented, making GDP growth appear stronger than it is.

The impact? The bureau estimates that in the first quarter of 1995, the old method overstated GDP growth by 1 percentage point, making it 2.7 percent. The new method would have put the increase at 1.7 percent.

COVER STORY

ing," not dramatically different from 1995's or from the nation's as a whole, says Robert G. Dederick, economic consultant to Northern Trust Co., a Chicago bank. A large part of the Midwestern economy, he says, is based on the automobile industry, which "has been sort of flat."

The Plains and Mountain states will see some slowing in 1996, but construction will post steady gains, and there will be stability in manufacturing, says Alan Barkema, assistant vice president and economist at the Federal Reserve Bank of Kansas City. Construction, he says, will shift from residential to infrastructure such as public

and more apparent," Reynolds says, "that starting a small business is more and more a part of American life."

But starting and running a small business isn't easy. There are taxes; government-required paperwork; federal, state, and local regulations; and finding the right employees. And you have to worry about getting the right technology, using it, and keeping it up to date.

So why do it? Ask Carol Rae of Rapid City, S.D.

By day, she works from her office as senior vice president for external affairs for Chiron Vision, an ophthalmic firm based in Claremont, Calif. By night, she tends to two small businesses she owns in whole or in part: one manufactures orthopedic splints, and the other provides a wide variety of video and computer software services to businesses.

Rae says that while her job with Chiron Vision is focused solely on things like the company's dealings with federal regulators, her two small companies—one with three employees, the other with four—require that she grapple with the full range of small-business issues. "It's easier for me to work for somebody than to deal with all of the issues that face me as a business owner," says Rae, but she adds: "My batteries are charged by the strategic planning and the creative side of the products" the two small firms create.

David Brophy, professor of finance at the University of Michigan Business School, in Ann Arbor, says the trend toward layoffs and company spinoffs, outsourcing, and downsizing has brought a new attitude about small firms. "There's a whole sea change that heightens interest in the small-business-unit arrangement," he says.

Many of the new companies are being started by immigrants, who tend to run family businesses, and by women, who tend to opt for home-based businesses, Brophy says.

Success for these new small businesses may be determined by the choice of a location and the kind of business an entrepre-

neur chooses to start. Cognetics' Birch spends considerable time identifying the most promising industries and locations for starting and expanding businesses.

In identifying his "entrepreneurial hot spots," Birch looked at the kinds of places where small companies had started and flourished, and he came up with four major characteristics of these promising locations: the presence of universities, a major airport (preferably international), a skilled labor pool, and a widely shared opinion that the location is "a nice place to live."

In seeking to identify "hot industries" in which entrepreneurs can start businesses

Projected Growth In Small Businesses, 1995-2000

Number Of Employees	Increase In Number Of Firms
1-4	1.3%
5-9	2.4%
10-19	2.1%
20-99	0.9%
100 or more	0.6%

SOURCE: INFO TECH MARKETING

works and retail buildings to support an inflow of new residents.

Throughout the West, things look good. "It's very much technology-driven plus population growth," says Lynn Reaser, senior vice president and chief economist for First Interstate Bank of Los Angeles. The technology boom is helping many states, especially Utah, Oregon, and Arizona, she adds.

In California, Reaser says, growth in the international-trade, entertainment, and technology sectors will more than offset losses from defense-spending cuts, providing many opportunities for small firms. "We expect the California economy to grow faster [in 1996] than the national average for the first time since 1990," she says.

With the nation's economy shaping up to be favorable overall for small business, this sector is becoming a more active—and more attractive—area of the economy.

Indeed, Paul Reynolds, professor of entrepreneurial studies at Babson College, in Wellesley, Mass., says recent research shows that, at any given time, one in 25 adults is trying to start a small business. He said that rate—4 percent—is twice the incidence that was previously thought and that it could represent 6 to 7 percent of the nation's households. "It's becoming more

Hottest Industries For Growing Companies

1. Chemicals
2. Electrical/Electronic Equipment
3. Instruments
4. Paper Products
5. Rubber/Plastics
6. Oil/Coal Production
7. Food Products
8. Primary-Metal Production
9. Heavy Construction
10. Insurance Carriers

SOURCE: COGNETICS INC.

(see the chart above), Birch found that most opportunities were in "slow-growing, less glamorous" sectors, such as chemicals, paper products, rubber and plastics, and oil and coal production. The reason? These industries are the ones most ripe for change involving new technologies produced in recent years. "The less advanced the sector," Birch says, "the greater the opportunities."

As small business heads toward the new century, it is still struggling with myriad issues revolving around taxes and regulations, profits and benefit costs, and the market clout of big, winner-take-all competitors.

But advances in technology and communications now enable even the '90s equivalents of "mom and pop" firms to

reap some of the same benefits enjoyed by the largest companies—including the best employees and best customers—while helping them capitalize on the strengths they have long had, including more-personalized and close-to-home service.

Notes Dun & Bradstreet's Winters: "Right now, corporate America is in great shape, and small business is going to ride that crest."

16

Top 10 States For Small-Business Growth, 1995-2000 (Projected Net Number Of New Businesses)

Florida	58,034
Washington	34,980
Colorado	30,488
Texas	29,478
Nevada	25,056
Idaho	20,114
Utah	19,785
Georgia	19,089
Oregon	16,894
South Carolina	14,807

SOURCE: INFO TECH MARKETING



To order a reprint of this story, see Page 57.
For a fax copy, see Page 5.

Easing The Pain Of Layoffs

By Michael Barrier

Layoffs by small firms can never be just a set of statistics, even for the people heading the company; the figures will always have names and faces attached.

The smaller the company, "the more of a social system it is and the less of an economic system it is," says David M. Noer, author of *Healing the Wounds: Overcoming the Trauma of Layoffs and Revitalizing Downsized Organizations*. What Noer calls the "tightness of the organization" magnifies the effect of layoffs.

Their impact is greater in small firms because it's rarely cushioned by advance notice. (The 1988 federal law requiring 60 days' advance notice of "massive layoffs" doesn't apply when there are fewer than 100 employees.) "It's very frequent that [company owners] just say, 'OK, we're closing up next week,'" says Richard M. Cyert, president emeritus of Carnegie-Mellon University, in Pittsburgh. Cyert researched layoffs as chairman of a committee on technology and employment for the National Academy of Sciences several years ago.

There's no way to eliminate the pain that accompanies layoffs at small companies, but it is possible to reduce that pain greatly if you can avoid the kind of traumatic layoffs that Cyert describes. Here are some steps business owners and managers should consider when layoffs begin to look like more than a remote possibility:

Talk to your lawyer first.

That may sound a little cold-blooded, but there's obvious danger for business owners and managers if layoffs should fall into an apparently discriminatory pattern, whether it involves age, sex, or race.

Likewise, what laid-off employees are told when they are terminated—the assurances they are given, the promises that are made—can come back to haunt a company. Dan Nagy, who worked for an outplacement firm in Pittsburgh before he became placement director at Duke University's Fuqua School of Business—and who took part in downsizings at many companies both large and small—says that terminating employees is so gut-wrenching that many managers say things that can be read as promises to find the employee another job.



PHOTO: SLOAN COLETTI-STOCK BOSTON/RE

When a small business must resort to layoffs, the move can rend holes in what is as much a social fabric as an economic one.

But wise company managers won't worry much about being second-guessed by the courts and will instead regard the need for legal consultation as an opportunity to get help.

"We wanted to make sure we did it correctly and we did it fairly," says G.D. "Rab" Paquette, president of Commercial Blueprint Co., in Phoenix. Paquette's firm, which makes blueprints for construction companies, went through a traumatic layoff in 1990 in the wake of a downturn in the real-estate market.

Explain the company's problems to your employees.

"The flow of information has to increase" when a layoff is looming, Paquette says. "Whatever you think is effective communication, go five steps beyond it."

The alternative is to let the rumor mill take over—and if there's one thing you can be sure of, says Michael Plater, a professor of management at the University of Florida and head of the school's entrepreneurial center, it's that the rumors "are going to be far worse than the reality."

Debra Shapiro, associate professor of management at the University of North Carolina at Chapel Hill, says that when management explains to employees why layoffs are necessary, "and the explanations

Downsizing is a reality for many small firms as well as large, but there are ways to minimize its disruptive effects.

are delivered in a sensitive, timely manner," both laid-off employees and survivors "are much less likely to feel the sense of injustice they would otherwise feel."

What is critical, she says, "is for the action to appear not arbitrary. That is really the only preventive measure" among firms studied so far "to have compelling positive effects."

Begin planning for layoffs—and their aftermath—far in advance.

"The more planning a company can do, the better," says Barbara Collins, managing director of the New York office of Drake Beam Morin, the largest outplacement firm in the U.S.

A business owner facing the need for layoffs should be thinking not just about cutting costs, she suggests, but also about "what you want your business to look like and act like" in the future. The business owner should measure the company's employees—their numbers and their skills—against that goal and plan for layoffs accordingly.

Even companies driven to layoffs by an immediate threat to their survival should use the layoffs as a spur to their long-range planning, Cyert suggests—in particular, by thinking about how to reduce labor costs not just by laying people off

MANAGING

but by substituting capital for labor.

Look for outside help for your laid-off employees.

Once offered mainly to discharged executives, outplacement services of some kind are now available for workers at every level. For lower-level employees, a company might offer a two- or three-day workshop for 15 or 20 employees to go over job-search techniques and to help them prepare resumes.

Such a workshop might cost an employer \$5,000 or so, Collins says. That could well be too much for a small business in trouble, but if a company can scrape together the money, it may find that such an investment pays off in better morale among the remaining workers, who will have concrete evidence that the company cares about what happens to its people.

Be fair—and make sure everyone sees how fair you are.

Before Commercial Blueprint laid anyone off, Paquette says, all salaries were cut by the same percentage. "We all took the same hit," he says. "We thought that was really important for morale. And we made sure they all knew about it."

To save money, Commercial Blueprint canceled its janitorial service and divided up the housekeeping duties among the members of the staff so that some top managers wound up cleaning bathrooms. "It went surprisingly well," Paquette says. "The on-line employees saw the



PHOTO: SMILE, F. GERO

With layoffs looming at his Phoenix blueprint firm, "Rab" Paquette stepped up the flow of information to employees.

managers scrubbing toilets, and that probably had a positive effect."

When layoffs finally came, they were spread throughout the company, touching top management as well as production, administration, and sales. "Then," Paquette says, "it became a team effort" involving people from all parts of the company "to make sure that production was kept up."

Decisions like Paquette's may be even harder for employees to accept if a company is not in trouble now but its owners and managers see trouble looming a few years down the road and try to reshape—and reduce—the work force to meet anticipated competition.

Of the layoffs that have so roiled big

business in recent years, many have been strategic layoffs of this kind. For small firms, with their stronger personal relationships, the stakes in such layoffs are especially high. There is a danger, Duke's Nagy says, that "bitterness will fester," often taking the form of resentment against bosses who are seen as feathering their own nests at the expense of the discharged employees.

To reduce such dangers, he believes, companies should try to get as close as possible to their downsizing goals "by offering sweeteners" that encourage early retirement and voluntary severance. If the company can afford to wait, he says, attrition may accomplish much of the remaining reduction, so that only a few actual layoffs are necessary.

On a larger scale, author Noer, who is vice president for training and education at the Center for Creative Leadership, in Greensboro, N.C., suggests that small businesses should protect themselves against the trauma that often accompanies layoffs by diminishing the sense of themselves as "family" that so many small businesses encourage.

"If there's anything that a small-business person ought to do," Noer says, "it's to be much clearer on the boundaries between the social system and the economic system—because they get in trouble when they don't do that."

All of the social connections that so often arise in a small business—the first-name informality, the beers together after work, and so on—should not obscure a core truth, he says: "You should know, deep down, that what you're really here for is to perform work to help a customer."

In other words, the business does not exist for its own sake, as a real family does; it exists to serve customers. Absent those customers, the people who make up the business have nothing to bind them together—as a business, that is, although they may have other relationships that are purely social.

If such a conception of the business takes hold among the people who work there, layoffs, when they come, will represent not a breach of faith but instead a regrettable but perfectly understandable response to the ever-changing mix of customers. In such circumstances, it may actually be easier to help those who are laid off—and the survivors, too—because the emotional temperature of the business is much lower.

Establishing a clear distinction between the social and the economic can be, Noer says, "the healthiest thing for the business, and, for sure, healthy psychologically for the people who work there, and for the owners."

Reading And Resources

Healing the Wounds: Overcoming the Trauma of Layoffs and Revitalizing Downsized Organizations, by David M. Noer (Jossey-Bass) is a persuasive study of the emotional and psychological issues involved in layoffs. It gives special attention to layoffs' effects on the survivors—and, through them, on how the business will function afterward. The book is available in paperback for \$18; the hardcover edition is \$22.95.

A new book, *Conducting Lawful Terminations*, provides employers with legal and practical advice on how to handle terminations properly, for the purpose of avoiding wrongful-discharge litigation and related problems. The book is available from the publisher, the Society for Human Resource Management Foundation, by calling 1-800-444-5006; it is \$15 for

members of the organization, \$20 for nonmembers, plus \$6 for shipping.

If your company is considering layoffs and wants to offer outplacement services to laid-off employees, you'll be looking for an outplacement firm. To find the right one, former outplacement executive Dan Nagy suggests, start with other companies in your area that have gone through downsizing and have hired outplacement firms. It shouldn't be hard to find some.

Ask them how they selected a firm and if they were happy with it. When you've found an outplacement company that looks right, he says, "I would ask the firm to show me exactly what its workshop consists of. Walk me through it, and show me that it addresses the needs of a company like mine, and is not a cookie-cutter approach."

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Managing Your Small Business

Bringing your idea to market; advice for corporate-gift givers; beyond the sales-performance numbers.

By Roberta Maynard

PRODUCT DEVELOPMENT

You Have A Great Concept, But Now What Do You Do?

Like many new entrepreneurs, David Leinberger had a great idea for a product but no clue about how to get it manufactured. He soon found that bringing his product to market involved about 10 percent implementation and 90 percent research.

He spent hundreds of hours cutting and pasting, trying to develop the design of his invention, a ski accessory called Skier-Sleeve, a wearable holder for trail maps. Then he spent many more hours testing fabrics that would hold up in cold and wet conditions.

"It's trial and error," says Leinberger, president of the three-year-old Launch Corp., in Denver. "There are so many things to do—you just start calling and talking to people. After developing the product, you have to find the right manufacturer, learn how things are made, and determine what is the best process. Then, it's making another couple of hundred phone calls to locate materials."

Except for marketing, which is his background, Leinberger was in unfamiliar territory. He says he found the following sources most helpful in designing, refining, and manufacturing:

■ **The Thomas Register of American Manufacturers**, a 29-volume alphabetical and state-by-state listing of products and services in the U.S. It's available in the reference sections of most libraries.

■ **Manufacturers themselves.** Leinberger sent off the designs he had stapled and glued together, and he asked for and received valuable feedback.

■ **Inventors' organizations.** An example is the not-for-profit group that Leinberger joined, the Rocky Mountain In-



PHOTO: GUYARD SHOCK

ventors' Congress, in Denver. It offers novice-level educational programs and regular networking opportunities for a \$45 annual fee.

To identify such groups in your area, check with your local chamber of commerce and local patent attorneys, who are likely to be members.

■ **Retailers and their buyers.** For

Keeping skiers' trail maps and resort passes in plain sight—but protected from the elements—is the idea behind David Leinberger's Skier-Sleeve and Pass-Port holders.

Leinberger, it was ski shops.

■ **Product users.** Early on, Leinberger tapped trade-show attendees, whose suggestions led to significant product modifications. He also encourages customers to comment via a toll-free telephone number and through feedback cards included with the product. Thanks to this network, Leinberger finds himself continually being approached about new applications for the Skier-Sleeve, such as in motorcycling, flying, and hang-gliding.

A key to getting his products onto the shelves in ski-equipment stores, Leinberger adds, has been to offer a buy-back guarantee to shops that agree to order at least 24 pieces.

If there is a downside to his company's growth, he says, it's that last season he was so busy that he didn't have time to ski.

LEGAL EXPENSES

Tailoring Fee Arrangements

Small-business owners can gain more control of their legal costs by negotiating with their lawyers to set up various types of compensation, says Henry C. Krasnow, a partner in the Chicago law firm of Krasnow, Sanberg & Cohen, which specializes in working with entrepreneurial companies.

Typical arrangements, particularly hourly fees, can discourage efficient effort, Krasnow says. He recommends that fee arrangements be tailored to the nature of the work:

■ **Ordinary, straightforward work.** Lawyers should be able to set a fixed fee for tasks that are relatively simple and have little likelihood of complications, such as home closings and corporate minutes.

■ **More-sophisticated work** can also be handled with fixed fees, Krasnow says, if the work is predictable and if past experience can be used as a guide for controlling costs. The time required to negotiate a shopping-center lease, for example, can be estimated fairly accurately, which can help a company plan for the expense as well as discourage the drawing out of negotiations. Businesses should discuss time frames with

attorneys before the work is begun and should determine how to deal with overruns of legal costs.

Legal expenses. While much work related to lawsuits is unpredictable, some is both predictable and budgetable. Time required for certain procedures—research, pleadings, discovery, pretrial motions, trial preparation, and such—can be estimated, and certain stages can be assigned to junior members of the legal staff, whose work would be billed at a rate lower than that for senior attorneys.

Renegotiable retainers. Short-term arrangements of three to six months allow a client to make routine inquiries and get uncomplicated legal services. Both parties can later decide whether the amount of work fit the fee and, if it did not, adjust

the fee accordingly for the next period or choose not to renew the agreement.

Use of such fee arrangements is not commonplace, and many lawyers still resist them, says Krasnow, whose firm does use them. But the wide availability of legal help is making it increasingly easy to negotiate pricing, he says, and one result is a trend away from the hourly fee—which became entrenched in the profession more than 30 years ago—and toward more-creative approaches.

Whatever fee arrangements you negotiate, communicate to your lawyer that you want to minimize labor-intensive work, he advises. Encourage your lawyer to look for win-win solutions. If you insist on your lawyer being "tough" so you can "win," your legal fees will increase. ■

SALES PERFORMANCE

What The Numbers May Not Tell You

Encouraging salespeople to achieve the sometimes-conflicting goals of meeting customer needs and meeting sales quotas—but compensating them only for their sales numbers—can ultimately damage precious customer relationships.

Sales managers typically focus on sales numbers because those figures are tangible and available and because the managers themselves are held accountable for results, says Marsha Wells, who develops sales-assessment products for Systema, a sales-consulting company in Northbrook, Ill. "What sales managers don't see—and therefore can't evaluate—is how well salespeople analyze customers' needs and build trust—two critical factors in selling," she says.

Because customers can provide this information, Systema recommends that companies use it in concert with sales figures to provide a more-complete picture of what is happening in the field.

Unskilled reps may bring in a lot of sales because they have a choice territory or are benefiting from the work of a previous rep, says Wells.

Similarly, skilled reps' results might be unimpressive because of factors beyond their control.

An effective way to reach customers—especially in business-to-business selling—is to have them interviewed by people outside the sales department. This should not be a customer-satisfaction survey, Wells cautions: "It's important when talking to these customers to make a distinction between the company's products and services and the individual salesperson. You're looking for where weaknesses exist in the sales force and who is doing the best job of establishing good customer relationships."

A common customer response in such interviews, she says, is that the salesperson doesn't understand the customer's business.

If salespeople get closer to their customers and understand their needs better, she says, sales will follow. And compensation based on total performance will provide the motivation, she adds. ■

APPRECIATION

Tips For Choosing Corporate Gifts

What is the best type of gift to give as a sales incentive, an achievement award, or a simple thank-you to a loyal client or supplier? Vern Kagan, owner of Smart Jewelers, in Lincolnwood, Ill., has operated a successful corporate-gift program for 15 years, and he suggests that companies consider the following:

Is the item practical?
Can it be used or displayed? Many gifts are attractive, but function adds value. For employee gifts, consider an item that is not related to work.

Is it appropriate for both men and women?
Choose something with designs for both, but of equal value.

Is it a known brand?
A recognizable manufacturer or brand helps convey value.

Can it be personalized?
Determine whether you want your company logo or the recipient's name—or both—to appear, and choose a gift accordingly.

In addition, Kagan offers some questions that can be asked of gift suppliers:

■ Can they deliver quickly? Be sure you can get a quick replacement if you discover the day before an event that someone has been overlooked or that an engraved name was misspelled.



PHOTO: SHARON JOHNSON

Timing is important when giving gifts to employees and customers, says jeweler Vern Kagan.

■ What are the quantity requirements? Can you get a single item, or must you order in large numbers?

■ Are volume discounts available? If you need only a few gifts a year but discounts are available for volume, consider purchasing enough gifts to last a few years. ■

Your Comments, Please

Is there a topic of interest to you that you'd like to see covered in this feature? Do you have a specific business lesson to share? Send your comments to Managing Your Small Business, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; or fax us at (202) 463-3102.

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Stick-to-itiveness Pays

By Claire Buhl

The average person visits the refrigerator 11 times a day. In one year, that's over 16,000 times your business logo will be recognized by an average family of four," says Bill Wood.

For Wood, that bit of information is not trivia. He is the founder and chairman of Magnet Inc., which, according to the Promotional Products Association International, is the world's leading maker of refrigerator magnets in the specialty-advertising-products industry.

Not bashful, Wood bills his company as the "world's leading magnet supplier," period. His ubiquitous little giveaways advertise everything from the neighborhood gas station to corporate giants such as Exxon and Weight Watchers.

"They're small, inexpensive, mailable, utilitarian, and . . . well, they're magic," says Wood, whose company is based in the small town of Washington, Mo., west of St. Louis.

The magic started in the early 1980s. Burned out from a successful sales career and tired of traveling, Wood formed a marketing consulting firm, a career move that pulled him into a new field—marketing advertising magnets for a company in Union, Mo.

He found the magnets such a compelling force that in 1984 he decided to make his own. He bought an old car wash, invested \$500 in a couple of machines, hired two employees, and went into production. "What really kicked it off was an order from the regional office of Pizza Hut," says Wood. Sales doubled annually for the first several years.

Now, 12 years later, the 80,000-square-foot Magnet Inc. office and manufacturing center is the flagship building of a new industrial park at the edge of town.

Magnet Inc. has made magnets for Ford Motor Co., General Motors Corp., Holiday Inn, and the Chicago Cubs. Wood says his customers include at least half of the Fortune 500 companies. Sales in 1996 are expected to reach \$33 million.

"It's a hot industry, and the potential is still there," Wood says. "The amount of money spent on promotional products today is about six out of every 10 marketing dollars, and the rest goes into mass-media advertising. Twenty years ago, those figures were reversed."

The more that magnets are used, Wood finds, the more interest there is from potential clients. As his company is "stimulating the market," he says, he is discov-

ering more customers. "We should have a magnet in every box of Tide. We should be in everybody's packaging," he says. "We now have 60 percent of the total magnet market. But as the pie gets larger, 40 percent of the market will be OK."

Magnet Inc. works with a network of 8,000 independent distributors. "Our responsibility is to motivate them to sell magnets rather than a pen or golf ball or whatever, to show their clients how they can stretch their advertising dollar. They can get magnetic business cards for 20 cents each. Why not spend 20 cents instead of \$2 for a golf ball?"

Nearly 40 artists, using state-of-the-art computers, work full time designing the



PHOTO: URBAN KATZMAN

There's magic in refrigerator magnets, says Bill Wood, founder of Magnet Inc.

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MAKING IT

magnets—from simple, flat, flexible business cards and football- or baseball-shaped game schedules to more-elaborate custom shapes and molded designs, such as delivery trucks and telephones. All are displayed in the company's full-color, 54-page catalog.

Wood attributes much of Magnet Inc.'s success to its 610 employees. "There is an incredible work ethic here in Washington, but, unfortunately, we have absorbed all the qualified workers," he says. In order to continue to grow, the company has

added a 200-employee plant in nearby New Haven, Mo., and another in southern Illinois with 150 workers.

Wood's commitment to his employees is evident. For example, in a company program called Education Pays, college instructors are brought on-site, and Magnet Inc. employees are paid to earn credit hours in basic business and marketing courses.

Wood also employs 80 retirees part time and includes them in the company's "gain-sharing" program, which offers bonuses when production goals are ex-

ceeded. Wood says one grateful 82-year-old worker told him, "Magnet Inc. gives me a reason to get up in the morning."

So, even as you make your 12th foray to a logo-laden refrigerator today, the magic continues at Magnet Inc. The company will produce more than 150 million magnets this year, making Bill Wood the world's indisputable refrigerator magnet ... uh ... magnate.

Claire Buhl is a free-lance writer in Washington, Mo.

A Real Page Turner

By Elizabeth Warner

Kevin L. Bristol set goals for himself early in life. "I always knew that I was going to be an entrepreneur," he'll tell you. "I used to sell rides on my Big Wheel [tricycle] for 25 cents when I was 5 years old."

It's clear that his dream came true, because at age 30, Bristol is president and sole owner of a successful Baltimore company that sells personal pagers. His company, VIP Paging, Inc., has grown from sales of \$22,000 in 1991 to \$1.2 million in 1994.

Bristol graduated from Towson State University, near Baltimore, in 1986 and went to work for Motorola, Inc., selling cellular communications equipment. Five years later, he was recruited to work as an account executive for Fujitsu America, Inc., another communications company.

When Bristol lost his job within a year in a corporate downsizing, however, he was prepared. Rumors of the coming layoffs had led him to start a sideline business at home. Because of his familiarity with communications and what he saw as a booming industry, Bristol decided that selling personal pagers would be his best option. With his \$6,500 in savings, he set up shop in his bedroom. He bought an automated phone system, a computer, and other office essentials.

Bristol started out with 30 customers, garnered mostly through friends and word-of-mouth advertising. He fondly remem-

bers customers calling to speak to customer service. He would put the person on hold, disguise his voice a bit, and pretend to be a customer-service representative.

Bristol attributes much of his success to being able to convince people "that I was larger than I really was." When customers wanted to pick up their pagers at his

monthly service. The pagers are made by larger companies such as Motorola, and air time used to transmit a paging message is bought from a large distributor.

But VIP got too big too fast, and Bristol wasn't prepared for the volume of business he was getting. The company was undercapitalized and needed more money to sustain its booming growth. When Bristol went to a bank for a loan in 1992, he was frustrated by the lack of support he got because VIP was a new business. He applied at nine banks before finally receiving a \$100,000 loan in 1994 under a Small Business Administration

program that provides loans to small companies with sound business plans.

VIP Paging, with 8,000 subscribers and 15 employees, has four locations in and around Baltimore, and Bristol hopes to expand along the East Coast. Most of the locations resemble offices, but VIP recently opened a kiosk in a shopping mall. Bristol has found that the kiosk not only attracts people who might not think they need a pager but also generates awareness of his products and services in the community.

VIP is succeeding in a market dominated by big companies that can underprice smaller ones. To compete, Bristol goes after individual consumers instead of companies, luring them through personal service, advertising, and marketing ventures like the kiosk. "The only thing that is going to make you different is the type of service and the marketing you do," he says.

Paging has been profitable for Bristol, but he hasn't lost sight of a higher calling: Twenty-five pagers he donated to two Baltimore-area hospitals will be distributed to expectant fathers, patients waiting for transplants, and families with members in shock trauma. The gifts, Bristol says, allow him to give back to the community that made him successful.



PHOTO: © MICHAEL KEZA

In a market dominated by larger companies, VIP Paging's Kevin Bristol sets his firm apart with personal service.

"office," Bristol told them he offered "VIP service" and would deliver. That gave him the inspiration for the company name and a logo to live up to. He enhanced this image through aggressive marketing, relying heavily on print, radio, and television advertising.

VIP Paging does not manufacture pagers, but rather it sells them and the

Elizabeth Warner is a senior English major at Dickinson College, in Carlisle, Pa.



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IBM

Donations For Deductions

By Marsha Bertrand

If you have obsolete, excess, or slow-moving inventory that you'd like to dispose of, it may be worth more than you think. Not only can you get rid of that inventory and free up warehouse space, but you also can get a hefty tax deduction—often, more than your production costs—and at the same time help a not-for-profit organization.

Under section 170(e)(3) of the U.S. Internal Revenue Code, you can donate inventory to a qualified not-for-profit organization and receive a tax deduction. In order to qualify, the materials you donate must be used to help the ill, the needy, or minors, and the donor may not barter, trade, or sell the goods.

Although it may be too late to complete a donation and claim a deduction for 1995, it's not too early to begin planning for the 1996 tax year.

The most challenging part of the process is to find a not-for-profit group that can use the type and the amount of items you want to donate.

That's where organizations called exchanges enter the picture. They accept materials from companies and distribute the goods to various not-for-profit groups. Such exchanges include Gifts In Kind America, in Alexandria, Va., which accepts most items other than food, and Second Harvest, in Chicago, which accepts food as well as health-care and beauty products. Gifts In Kind can be reached at (703) 836-2121; Second Harvest's toll-free number is 1-800-771-2303.

In addition to finding an outlet for your goods, exchanges supply you with the proper tax documentation, handle distribution, and ensure that the recipient qualifies under the tax code. Moreover, Second Harvest will handle any recall of donated food if it becomes necessary. Those services are all performed without charge to the donor.

"Practically any product produced can be used by the nonprofit sector because it includes charities that serve children, the homeless, and the elderly," says Susan Corrigan, president and CEO of Gifts In Kind America. For instance, when Coburn Corp., in Lakewood, N.J., had

\$200,000 worth of novelty stickers and decals that wouldn't sell, the company gave them away to schools. Coburn reduced its inventory, cleared out warehouse space, and received a tax deduction.

The tax deduction that a company receives for donated goods usually is equal to the cost of producing those goods plus half the difference between that cost and the fair market value. For example, if

Inventory that's just taking up space can be used to lower your taxes and help a nonprofit group.

donate the transportation, but if not, we arrange for transportation right out of their warehouse," says Christine Vladimiroff, president and CEO of Second Harvest. She says about half of the business donors also supply transportation of the goods.

Companies donate goods for a variety of reasons. Second Harvest often gets canned goods because their labels are



ILLUSTRATION: GEORGINA LEIGH MCGONAGAL

you manufacture felt-tip pens at a cost of \$1 per pen and sell those pens for \$2, your deduction would be \$1.50 each.

For C corporations, the deduction is limited to twice the production cost. And the deduction for S corporations, partnerships, and sole proprietorships is limited to straight cost, without consideration of market value.

When Triangle Pacific Corp., a Dallas manufacturer of flooring and kitchen cabinets, wanted to dispose of some old flooring, it called Gifts In Kind. The organization located the David School, in David, Ky., whose students are adults who have dropped out of high school. The school had been trying to complete construction of a new building for three years but couldn't afford the materials. Triangle Pacific was able to dispose of 13,000 square feet of flooring at no cost and at the same time help the school expand. The school received \$100,000 worth of flooring for \$2,500 in shipping costs.

"It's certainly helpful if the donors

upside down or have printing errors or because the manufacturer is changing the packaging. "It's perfectly safe, nutritious food, but it can't be sold in a grocery store," says Vladimiroff. "We once got raisin bran because the machine put too many raisins in the boxes. With that many raisins, the product didn't match the nutrition information on the label."

The benefits to the donating company aren't only financial. "Besides the tax deduction and the reduction in inventory-carrying costs, companies realize tremendous public-relations benefits," says Corrigan. "When we talk to companies, their intent relates to their whole philanthropic program, not just 'What can I do with excess inventory?' The companies really do care."

And so, everyone wins. "We exist to feed hungry people, but we're also the link to the corporate business world," says Vladimiroff. "We think it's a unique partnership in which all of us benefit."

Marsha Bertrand is a free-lance writer in Hinsdale, Ill.

TRANSPORTATION

A Sobering Law For Truckers

By Julie Candler

It's been a year now that companies with 50 or more commercial-license drivers have had to abide by federal regulations mandating testing for alcohol, on top of the drug testing required since 1989. On Jan. 1, the alcohol-testing regulations became effective for company fleets with fewer than 50 employees who hold commercial driver's licenses.

Like companies that have been complying throughout 1995, firms newly affected by the alcohol-testing requirements are expected to find that the rules pay dividends, both on the road and in the lives of their drivers.

"Some people with alcohol problems can be pretty innovative in concealing them," says Terry Bruington, manager of safety compliance for Capital Electric Linbuilders, Inc., a Leavenworth, Kan., company that installs power lines. "We had no cases of any of our 200 drivers drinking on the job. But learning about our alcohol-testing program made some drivers aware of what can happen. They voluntarily went for counseling, ... found out they had a problem, and did something about it."

"They and their families are very thankful for it," adds Bruington. "At the same time, some drivers who didn't want to comply with the testing are no longer here. So they are not jeopardizing the other employees or other people on the road."

Commercial licenses are required for workers who drive trucks with a gross vehicle weight rating above 26,000 pounds, for drivers of vehicles that can transport 16 or more passengers, and for drivers hauling certain hazardous materials.

The rules on alcohol use were written by the U.S. Department of Transportation's Federal Highway Administration (FHA) under the Omnibus Transportation Employees Testing Act of 1991, which, among other things, mandated such monitoring of truck drivers. The law also affects operators in the aviation, rail, commercial marine, pipeline, and mass-transit industries.

The Jan. 1 broadening of the rules' scope will affect the thousands of small companies that employ many of the 7.5 million drivers who have commercial licenses. Those firms face hard choices on how to set up, operate, and pay for the alcohol-testing programs.

Each company must formulate a policy on testing and must outline its plans for

providing rehabilitation for drivers and for reinstating them. Drivers must be educated about the new policy and how it will affect them. Detailed records must be kept.

Under the law, administered by the FHA, employees cannot drive with a breath-alcohol concentration (BAC) of 0.04 percent or greater or if they have consumed any alcohol within four hours. Drivers who register a BAC of 0.02 to 0.039 percent just before, during, or after driving or doing other "safety-sensitive" work—such as loading, unloading, or repairing trucks—must be removed from duty for 24 hours. Also, if a supervisor suspects that a driver has used alcohol but a breath test can't be given immediately, the driver must be pulled off duty for 24 hours.

Alcohol testing falls into four categories:

■ **Random.** Each year, 25 percent of a company's drivers must be given unannounced tests just before, during, or after driving or performing other safety-sensitive duties.

■ **After an accident.** A test is required as soon as possible, up to a maximum of eight hours, if there was a fatality or the driver was ticketed. If the test is not given within two hours, the reason for the delay must be documented.

■ **Reasonable suspicion.** Testing is required when a trained supervisor suspects a driver of using alcohol. The supervisors must attend at least one hour of training on recognizing symptoms of alcohol use.



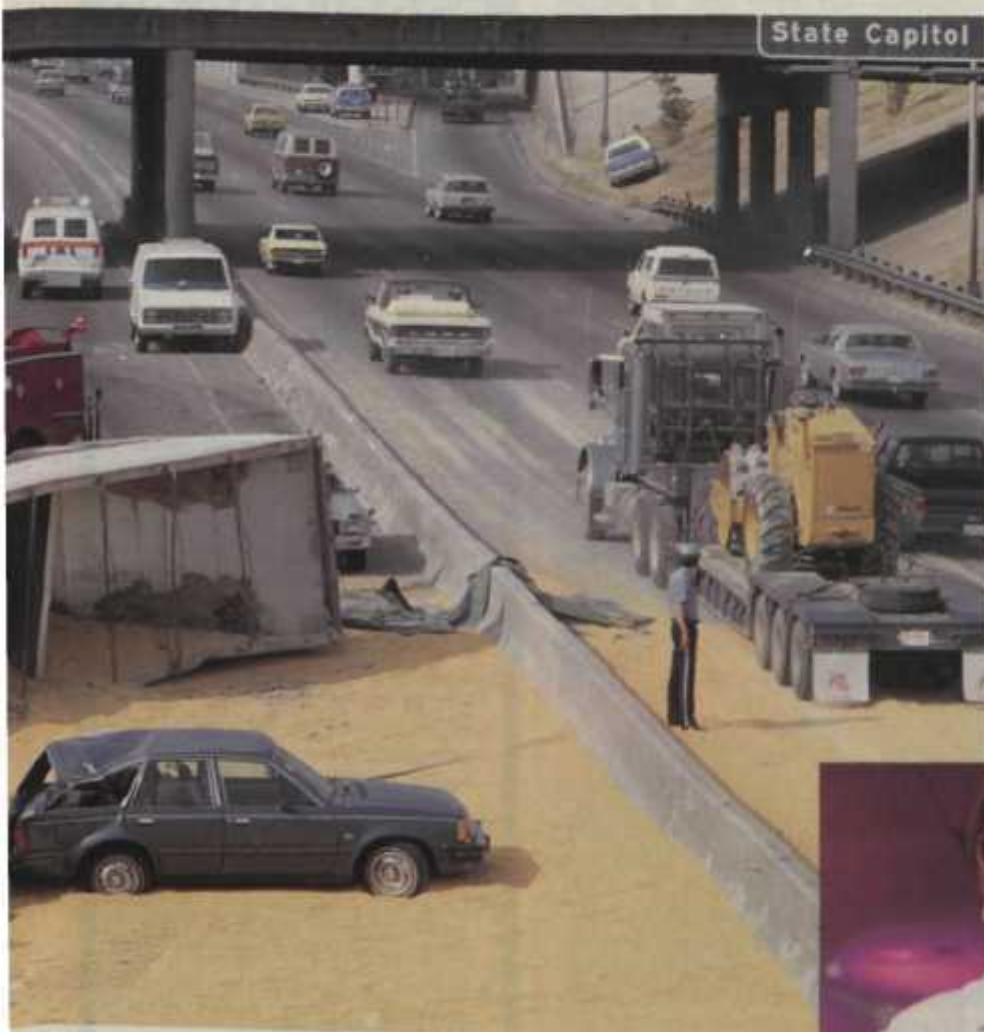
PHOTO: GREG GAZEMICH-ORPHOTO

■ **Upon return to duty.** After a violation, a driver must be tested before resuming work, and six unannounced tests may be required in the driver's first year back on the job. Also, violators cannot return to work before being evaluated by a substance-abuse professional and undergoing any recommended treatment.

Perhaps the biggest decision facing companies is how the testing will be carried out. They have three options: training some of their own employees to do the tests in-house; using a contract service; or joining a consortium that provides testing for member companies.

Each choice has advantages, and in-house testing offers two major ones. First, the company can maintain control of its program, an important consideration because

Testing for alcohol use is now a federal requirement for many small companies with fewer than 50 truck drivers.



Proponents of alcohol testing for truckers say it will reduce the number of costly accidents. Saliva tests, such as a type offered by STC Diagnostics, right, are cheaper to administer than breath tests.

companies are held responsible when a violation of rules is found, even if the testing was handled by an outside contractor. Second, in-house testing may be cheaper. Outside administrators make their profits through fees for service, enrollment, and annual renewal, although some may be able to use their aggregate buying power to get better prices from labs.

Bud Cucu, legal counsel for STA-United, Inc., a Lincoln, Neb., firm that administers drug and alcohol testing for 7,000 companies around the country, estimates that the annual cost to employers for both drug and alcohol testing will be \$64 to \$98 per driver,

with \$19 to \$38 of that cost for alcohol testing.

However, companies that opt to do their own testing may be able to reduce costs by using one of the recently approved saliva tests. They are cheaper and simpler to perform than breath tests, but screeners must undergo four hours of training and a two-hour exam. Also, because any driver registering a breath-alcohol concentration of 0.02 or higher must be given a confirmation test with an evidential breath tester within 30 minutes, employers

located more than 30 minutes away from a clinic with one of the evidential devices probably should not use the saliva tests.

Despite the potential cost savings from in-house testing, using an outside contractor—also called a third-party administrator—may be the way to go for many firms. "Many small-business owners don't want the worry of trying to comply with the alcohol and drug rule," says David Miller, a transportation specialist with the FHAs Office of Motor Carrier Standards. "It's a very complicated program. A third-party administrator will take care of everything."

That includes providing educational materials for drivers and supervisors as well as access to nationwide databases of certified labs and collection stations. Some outside administrators offer a 24-hour hot line that clients can call to find a collection center for a post-accident test. In addition, third-party administrators often can supply necessary forms, for a small fee.

Bruington's firm, Capital Electric Lin-builders, has another reason for using a third-party administrator. The company's drivers are represented by the International Brotherhood of Electrical Workers, he says, and "we wanted an outside source to make the random selection of who will be tested, and to have an outside clinic do the breath testing, so the union could not accuse us of bias."

Many small companies with trucking operations are already affiliated with medical clinics in their areas that have been handling their drug testing, and it's likely that a lot of



PHOTO: ORAL, ORANGE-BLACK 1996

these firms will use the same clinics for alcohol testing. Often, the clinics organize consortiums, pooling drivers' names.

Gundrum Trucking, Inc., a family firm in Slinger, Wis., has used the nearby Hartford Parkview Clinic for drug testing. Company secretary Jan Gundrum—whose husband, Howard, is the firm's president—says they

plan to use Hartford Parkview for alcohol testing as well: "The clinic will put the names of our 25 drivers in a pool and pick them by computer for random testing."

Susan Koppa McClurg, manager of business outreach at Hartford Parkview, says: "We provide a consortium for smaller companies and owner/operators in our service area, within a 30-mile radius. We serve a total of 130 drivers. We use their Social Security numbers, and our computer program selects the numbers for random testing."

Trucking companies have a vested interest in complying with the alcohol-testing law, says Cuca of STA-United. For one thing, he says, it will help them avoid the costly accidents, lost productivity, and absenteeism that often result from drivers' alcohol problems. He says statistics show that half of workers' compensation claims are linked to abuse of alcohol or drugs. "The testing program is not only a wise move in terms of your company's profit, it's also a wise move in terms of good public relations," he says.

Cuca adds that "these regulations establish for a motor carrier a baseline duty in a liability case. Plaintiffs' attorneys... will discover every document you have. If they find that you are not living up to these regulations, you have a liability problem."

Also, Cuca notes, the FHA can audit a carrier at any time and demand its testing-program records. He advises that companies consult an attorney when formulating a testing program, whether it be in-house or through a third-party administrator.

Companies will have to absorb other costs besides those of the testing programs themselves—lost driver time, for instance. "It costs us about \$6 a minute for the driver's nonproductive time," says Bruington of Capital Electric Linebuilders. "Going to a clinic as far as 30 miles away for a random test takes about 1½ to two hours."

Still, the consensus among trucking companies is that both the drug- and alcohol-testing programs—which have the support of the American Trucking Associations, an industry trade group—are well worth the expense. "Whatever companies spend on alcohol and drug testing will come back to them tenfold," says Robert Montgomery, safety manager of Leprino Transportation Co., a division of Leprino Foods, in Denver.

As for the drivers, most seem to feel that testing is the right road to take. Michael Fry, whose handle as host of the syndicated television show "The American Trucking Report" is Lowboy Lucas, says: "The good drivers are happy to see testing that will get the ones who are driving drunk or on drugs off the road."

Where To Find Help

Companies setting up alcohol- and drug-testing programs can find help and information through the following sources:

American Trucking Associations

The organization offers a free catalog from which you can order information booklets, diskettes, and video and audio tapes on how to set up and conduct testing programs.

Other reference and training materials available from the organization include an information packet that meets the regulatory requirement for apprising drivers of the testing and 60-minute videos that meet requirements for training supervisors on how to recognize alcohol or drug abuse.

Contact the American Trucking Associations at 2200 Mill Road, Alexandria, Va. 22314-4677. Phone: 1-800-ATA-LINE (282-5463); fax: 1-800-225-8382.

The Federal Highway Administration

Those who have an IBM-compatible personal computer and a modem can use the highway administration's electronic bulletin-board service to obtain copies of its rules and others issued by the Department of Transportation.

For bulletin-board on-line registration, call 1-800-337-3492. For the bulletin board itself, call 1-800-337-3492 or (202) 366-3764; if you have a 9600-baud modem, call (202) 366-3175. Callers assign their own passwords, which are needed whenever logging in.

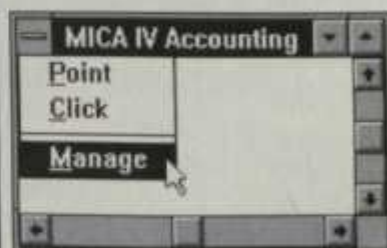
For information about using the bulletin board, call the highway administration's Computer Help Desk at (202) 366-1120. There is no fee to be on the bulletin board, but users pay local or long-distance phone charges.

For further information, contact the Federal Highway Administration's regional or division office in your state.

Copies of the alcohol- and drug-testing rules for commercial motor vehicles can be obtained by writing the Federal Highway Administration, Office of Motor Carrier Standards, Room 3107, 400 Seventh St., S.W., Washington, D.C. 20590.

For information about procedures for conducting alcohol and drug tests, contact the Office of the Secretary of Transportation, Drug Enforcement and Program Compliance, Room 9404, 400 Seventh St., S.W., Washington, D.C. 20590; (202) 366-3784.

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SMALL BUSINESS COMPUTING

Staking A Claim On The Internet

By Jill H. Ellsworth

Dan Sullivan's company is named Faucet Outlet, but he hopes the firm will become known as "the Ma and Pa hardware store" of the Internet, the mammoth international web of public and private computer networks.

That's a lofty goal for a company that's less than five years old, has only four employees—Sullivan is vice president—and is located in pastoral Middletown, N.Y. But these days the Internet is where businesses of all kinds and sizes have come to compete for fame—and fortune.

Fueling the desire to enter the game are numerous recent studies—some good, some dubious—of the Internet's reach. Among the most professional is a survey of more than 4,000 North American households randomly selected by Nielsen Media Research, the company best known for its ratings of television programs.

The Nielsen survey—conducted on behalf of CommerceNet, a consortium of more than 100 companies doing business over the Internet—found that about 37 million people in the United States and Canada have access to the Net. And they spend an average of 5.5 hours a week on line, or about the same amount of time they spend watching rented videotapes.

Perhaps more important to companies considering or even banking on an Internet presence, the survey projected that about 2.5 million people already have made one or more purchases using the computer network.

These conclusions appear consistent with the experiences of Faucet Outlet, founded in 1991 as a deep discounter of plumbing fixtures. Initially, its products were advertised solely in catalogs that cost about \$2 each to print and mail, and orders were taken over the telephone.

But a year ago the company established an Internet site—the address is <http://www.faucet.com/faucet/>—in an effort to display more merchandise to more potential customers while simultaneously reducing

costs. The results have been fantastic, says Sullivan. "It costs just pennies for me to get leads on the Internet," he says, "and I can show so much more... with an Internet catalog vs. my paper catalog."

When the site first went on line, it had just a few thousand "visitors" a month, Sullivan says, but by fall, traffic had grown to about 17,000 shoppers monthly. More important, the company now receives two to five phone orders a day from Internet

Businesses are flocking to gain a presence on the World Wide Web, where small firms are on equal footing with the big players.

Moreover, some companies are opening up shop on the Internet in one of the high-traffic, leased spaces known as cybermalls instead of operating under their own, discrete domain names. A cybermall is a collection of "virtual storefronts" with a common Internet entry address and a uniform look and feel. One domain name may serve as the Internet base address for dozens of companies in a cybermall. There are now more than 350 cybermalls,



PHOTO: GREG F. BERO

Owner Michael Monti uses the Internet to advertise his "historic frontier-house" restaurant, Monti's La Casa Vieja, in Tempe, Ariz.

customers, about 5 percent of the firm's order total.

Small wonder that even though the 25-year-old Internet is still growing at a rate of more than 10 percent a month, the business portion continues to expand even faster. In fact, the commercial sector now accounts for more than three-fourths of registered Internet addresses—called domain names.

Enterprises of all kinds are grabbing up these domain names related to their names or brands. The idea is to lay claim to them before another company does so. In all, nearly 25,000 companies are listed in Yahoo, a widely used commercial Internet directory.

according to The Shopper, another Internet directory. Whether operating independently or in a cybermall, companies have begun not only promoting and selling their wares but also conducting many other traditional business activities over the Internet, most notably internal and external communications, customer service, marketing and other research, and logistics management.

Most promotion and sales activity is taking place through a six-year-old Internet system known as the World Wide Web, or simply the Web. The Web information format—called hypertext transfer protocol, or simply HTTP—makes it easy for novices and experts

Jill H. Ellsworth (je@world.std.com), of San Marcos, Texas, is author of *The Internet Business Book: Marketing on the Internet: Multi-Media Strategies on the WWW*; and *The Internet Business Kit*.

Deputy Editor Albert G. Holzinger contributed to this report.

SMALL BUSINESS COMPUTING

alike to navigate the vast Internet universe by using so-called browser software and a few mouse clicks.

Web sites on the Internet are made up of "virtual pages" of information, which can consist of not only text but also still or motion pictures and sound. The multimedia nature of the Web makes it an attractive place to display products for sale, and the underlying power of the Internet makes it possible for companies to use Web sites for delivery of publications, software, or any product that can be converted to digital form.

Although legitimate concern about the security of transactions conducted over the Internet has deterred some potential buyers, recent improvements in encryption technologies may make credit-card information no more vulnerable to Internet thieves than to crooks who routinely steal financial data by conventional means.

"Concern is always healthy, but the fact is that it's technologically possible to do commercial activities on the Net with a greater level of security" than today's standard credit-card transactions, asserts Marc Andreessen, vice president of technology of Netscape Communications Corp., publisher of Netscape Navigator, the most widely used Web browser. (See the box on Page 32.)

Enterprises now promoting and selling products and services on the Net range from giant corporations to small firms and even sole proprietorships that are run from a kitchen table. "Big companies have no natural advantages whatsoever on the Net," says Andreessen. "The big company has an Internet address; the small company has an Internet address. You can't tell the difference."

Unlike other commercial venues, Andreessen adds, "the Net allows brand identities to be built quickly and cheaply. . . . It should be increasingly possible for small companies—and particularly start-ups—to take away market share from large companies pretty easily and without very much capital investment."

Already, some of the most successful companies on line are small businesses marketing and selling candy, clothing, crafts, flowers, books, clothes, toys, earrings, computer equipment, and thousands of other items and services. In addition to Faucet Outlet, a few examples worth visiting are:

■ **SDG Insurance Agency** (<http://www.usbusiness.com/insurance-quote.html>): This small insurance agency, in Chicago, is offering Illinois residents free price quotes on premiums for auto, home, life, and health insurance. Using responses to simple on-line forms, SDG will search a variety of insurance carriers

Setting Up Your Business On The Web



It's one thing to decide you should establish a business presence on the World Wide Web, where most Internet business is conducted. It's another to decide on the best way to proceed.

Like commercial air travel, Internet travel is available in several classes. The brief description of each below can help you determine which class is most compatible with your expertise and budget.

Business Class

For the vast majority of businesses of all sizes, the most practical way to get on line is through a professional Web-services provider. These firms, at reasonable cost, take care of all facets of the Web's virtual pages, including their design, marketing, and maintenance.

Many Web-services providers can create on-line customer order forms, and many also periodically report to clients the number of visitors who have looked at—or "hit"—the clients' pages.

Increasingly, these providers also are implementing secure Internet transaction arrangements that protect customers and vendors and are organizing client businesses into "cybermall," the equivalent of on-line shopping malls.

A Web-services provider offers several advantages: Setting up at such a site usually is quick and easy, and no special expertise is required of the entrepreneur; methods for conducting secure transactions usually are established; and mail owners often are savvy about on-line marketing and can help attract customers to your Internet storefront.

The trade-off is that you may not be able to customize the look and feel of your site as much as you might like.

Coach Class

Establishing a low-end presence on the Web—the do-it-yourself approach—involves creating your own Web pages after learning the basics of Web-authoring language from books or from the wealth of materials available on the Internet itself.

Once created, the pages can be installed via the Internet on the computer of an Internet access provider. This low-cost approach can provide even a very small, home-grown business with visibility on the Web and an e-mail address. The downsides: This method demands more of the entre-

preneur's time and energy, and quality will vary depending on the entrepreneur's skills in writing Web pages.

First Class

A business owner can gain full control over the design and operation of the firm's Web site by retaining an advertising agency and a Web-page consultant to design the site, then using a Web-services provider to install the finished product on the Internet.

The advantage: Creative control remains in the hands of the business owner, while the technical aspects of site operation are the responsibility of the Web-services provider. The downside is that site start-up costs can be high.

Private Jet

Some companies have the personnel, resources, and hardware to design, build, and maintain their own sites. They create their business presence by installing a Web server on their own computer network, thereby setting themselves up as a full-scale Internet host. Such companies create their own Web documents in-house.

This option is effective only for businesses that already have sufficient in-house talent and resources or are willing to hire the additional personnel and to purchase the extra hardware required.

For this high level of resource commitment, however, they acquire start-to-finish control over the access, design, and information on their Web site.

Ticketing Information

In these days of widespread competition and rapid technological change on the Internet, the costs associated with each class of Internet service can vary widely.

Traveling in Coach Class might entail \$20 to \$40 a month, while Web-services providers generally offer selections of services that can range from \$100 to \$10,000 per month. Frequently, these providers also have one-time setup charges that can range from \$100 to \$1,000 or more, depending on the complexity of the site and services selected. Complex custom designs and hardware installations can cost as much as \$100,000.

—Jill H. Ellsworth

for the best rates on home and commercial insurance and return the quote information via electronic mail (usually referred to simply as e-mail).

Jim Doyle, an owner of SDG, says the Web site paid for itself after only five weeks. "It has been the best advertising we have ever done. We usually get a 3 percent return on direct-mail pieces, but we are experiencing a 10 to 12 percent return rate on the Web site," Doyle says.

■ **Monti's La Casa Vieja** (<http://www.primenet.com/~monti/>): This restaurant in Tempe, Ariz., is using the Net to advertise the "finest prime ribs and steaks in the romantic atmosphere of a historic frontier house of the Old West." Owner Michael Monti says the Web provides "the greatest marketing bang for the buck around anywhere these days." He says he likes the juxtaposition of the ultramodern Internet with the historical context of his 40-year-old restaurant. Monti also uses an Internet "newsgroup," phoenix.ats, to offer more dining information and gather diners' comments.

■ **Earrings by Lisa!** (<http://mmink.ets.com/mmink/kiosks/earrings-earrings.html>): This small business in Poway, Calif., is selling distinctive earrings through a Web site containing detailed information on each product, including a picture of the item and a description of materials used to make it. Customers order by sending e-mail describing the earrings desired, including the order number. The products are held until payment arrives via regular mail.

On-line merchants consistently report customer praise for the convenience of Internet shopping: Each store is no farther away than the nearest computer; almost all stores are open for business 24 hours a day, and transactions are fast.

Even if your company isn't planning to sell merchandise via the Internet, however, there can still be great value in staking a claim in cyberspace.

For example, e-mail remains the most commonly used—and arguably the most valuable—of all the Internet tools. E-mail can help a business dramatically reduce long-distance telephone and postal costs, and it can be used to provide customers with product support. Automated e-mail responders, called mailbots, can be programmed to periodically send out brochures, price lists, and other information.

E-mail sent via the Internet is "quietly revolutionizing communications among companies, their customers, organizations, and governments," says Mary A. Modahl, managing director of people and technology strategies at Forrester Research, a technology research and consulting firm, in Cambridge, Mass.

Over time, notes a new report by



PHOTO: SHAWN BORD

Faucet Outlet's Dan Sullivan says the firm has had great success using the Internet.

Forrester, the Net will enable companies to learn more about their customers, overhaul their customer service and support systems, and greatly simplify internal communications. "Improved communications won't grab headlines, but it will have a fundamental impact on a wide variety of industries," Modahl says.

No matter how much you read about the Internet, it will still seem mysterious until you've experienced it firsthand. If you are even remotely considering use of the Net for business, you should buy a modem for your computer, open an account with an Internet service provider, and try the Internet for yourself.

Fast modems, which can transmit and receive more than 28.8 kilobytes of data per second, are widely available at computer stores and through mail-order outlets for as little as \$150.

Ask employees of the computer store, members of a computer club, or an acquaintance who already uses the Internet how to contact local Internet access providers. Or you can gain Internet access through a national access provider such as Netcom On-Line Communications Services Inc. (1-800-353-5600), Performance Systems International (1-800-774-0852), or UUNet Technologies Inc. (1-800-488-6384) or through a

general-purpose on-line service such as America Online, CompuServe, Microsoft Network, or Prodigy.

Early in your Internet travels, be sure to explore the following excellent sources of useful small-business information:

■ **Thomas Ho's Favorite Electronic Commerce WWW page** (<http://www.engr.iupui.edu/~ho/interests/commenu.html>) is among the best places to start looking for information on issues concerning commerce and the Internet. It contains a great deal of information and many links to other useful sites.

■ **EINet Galaxy** (<http://www.einet.net/galaxy/Business-and-Commerce.html>) also is a good starting point for business-information searches. Subjects include business administration, investment, marketing and sales, collections, and resource organizations.

■ **Open Market's Commercial Sites Index** (<http://www.directory.net/>) provides approximately 4,000 links to business sites and permits cross-site searches by key word. You can register your Internet site with Open Market, which will help others find it.

■ **Yahoo's Business Resources** (<http://www.yahoo.com/Business—and—Economy/>) is a huge, annotated list of Internet business resources in categories such as business schools, consortia, corporations (about 10,000 businesses on the Internet are listed in more than 145 subcategories), directories, electronic commerce, employment, intellectual property, management-information systems, marketing, products and services, and small-business information.

■ **InterSoft Solution's FinanceHub** (<http://www.catalog.com/intersoft/index.html>) provides a well-organized set of links to the Web's best financial information, including information on venture capital and banks.

■ **The U.S. Small Business Administration (SBA)** (<http://www.sba.gov/>) hosts a diverse site with information on starting, financing, and expanding a business. The site also provides links to the Office of Women's Business Ownership and to Great Business Hot-Links!, a collection of Internet sites of possible interest to business people.

No matter how minimal your expectations of the Internet may be, once you are on line you could be pleasantly—and profitably—surprised. Says Sullivan of Faucet Outlet: "We thought going into it that [the Internet] was just a marketing vehicle. Now we've seen a transition from a marketing vehicle into a real sales vehicle."

To order a reprint of this story, see Page 57.
For a fax copy, see Page 5.

SMALL BUSINESS COMPUTING

Netscape Founder Points, And It Clicks

By Albert G. Holzinger

For the roughly 37 million people in the United States and Canada who have access to the Internet, exploring that global collection of computer networks has become as popular a pastime as watching rented videotapes. And it's arguable that no one can claim more credit for this cultural phenomenon than 24-year-old Marc Andreessen, vice president of technology and co-founder of Netscape Communications Corp., in Mountain View, Calif.

Granted, creation of the Internet's fastest-growing and most popular element, the World Wide Web, was accomplished six years ago by scientists at the European Center for Nuclear Research, in Geneva, in their search for a medium for sharing ideas with colleagues in other countries. And building the Internet's sprawling infrastructure and developing the Web's vast multimedia content has been the work of countless engineers, technicians, and programmers.

But tapping that work and creative genius was beyond the technical capability of even accomplished desktop-computer users until the spring of 1993, when Andreessen and a handful of students at the University of Illinois at Champaign-Urbana began freely distributing a software program they had written called Mosaic.

Even that prototype of today's commercial "browser" software made navigating the Web's immense number of virtual pages of information as easy as using a computer mouse to point at and click on underlined text and pictures; therefore, the launch of Mosaic marked the beginning of the Internet as a populist communications tool.

Writing Video Games At 8

Andreessen—all 6 feet 4 inches and 200-some pounds of him—looks more like an alumnus of the University of Illinois football team than of the school's elite computer lab, the National Center for Supercomputing Applications (NCSA). But while growing up in rural New Lisbon, Wis., Andreessen vented any youthful aggression he may have had on the bad guys in computer games instead of on opposing tackles or ends.

In fact, at age 8, Andreessen taught himself the Basic programming language

from a library book so he could begin writing video games for the family computer. "Frankly, there wasn't a whole lot else to do," says Andreessen in his distinctively wry, self-effacing, and decidedly fidgety way. Even upon enrolling at Illinois, Andreessen says, he did not intend to pursue computer science as a



PHOTO: SHAWN RICHARDS

career. "Actually, I thought I'd go into electrical engineering, because I knew that electrical engineers got paid on average the most in the [engineering] field. . . I ended up in computer science largely because it required the least amount of work," he deadpans.

Birth Of A Browser

While completing course work toward the bachelor of science degree he would attain in 1993, Andreessen began working part time at the NCSA—for \$6.85 an hour. It was there that he gained access to the Internet and realized that although the Net was made up of "all these great networks . . . you were still expected to be a rocket scientist to actually access anything."

That realization led Andreessen and several student colleagues to conceive of and write the Mosaic browser software. Upon completion, they began making the program available free of charge over the Internet, and within a year more than 2 million copies had been downloaded.

After graduating, Andreessen accepted a job offer from a small Silicon Valley company named Enterprise Integration Technologies, a maker of Internet secu-

rity-enhancement products. But soon thereafter, he received an electronic invitation to meet James H. Clark, a former Stanford University associate professor of computer science. Clark had just left the company he founded a decade earlier, Silicon Graphics Inc., a maker of computers used primarily for graphics processing. The eventual result of that meeting was a jointly owned company that upon its founding, in April 1994, was called Mosaic Communications Corp. (Six months later, the company acquired the Netscape name, under an intellectual-property-rights deal struck with the NCSA.)

A Killer Rewrite

Andreessen recruited five of his NCSA cronies, and by year's end the team had produced a more-powerful and polished rewrite of Mosaic. The programmers dubbed the new program Mozilla—for Mosaic Killer—but the marketing types settled on Netscape Navigator. Like Mosaic, Netscape Navigator was launched free on the Internet, but now it is sold for \$39.95 at Netscape's Web site and at most computer-software retailers. Analysts say Netscape Navigator now accounts for more than 75 percent of the Web-browser market, a market loaded with solid products including Spy Mosaic, Spyglass Enhanced Mosaic, and Wollongong Emissary.

Netscape's product line also includes widely acclaimed software tools that companies can use to create and maintain their own Web sites and to establish virtual stores in which secure sales transactions can be conducted. These tools cost from about \$1,500 up to about \$50,000.

In August—with \$16.6 million in sales but no profit in the first half of 1995—Netscape became a public company. Its 5 million shares of stock, offered at \$28 each, immediately began trading at \$71, and in early December were trading at well above \$100. (The company recently proposed a two-for-one stock split, subject to shareholder approval in late January.)

Clark, the company chairman, has made it widely known that although the company could not have been launched without his \$4 million of start-up capital, it would not be thriving without Andreessen. "The creative drive here is Marc Andreessen," Clark says. "This is his company."

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Small Business Financial Adviser

The rules for paying your children to work; the IRS tries to do business a favor; investment clubs for fun and profit.

Putting Your Kids On The Payroll

By Mary Rowland

We've all heard the grim statistics on the survival rates of family businesses: Only three in 10 last into the second generation, and only one in 10 makes it to the third generation, according to Wendy C. Handler, who conducts family business research and is an assistant professor of management at Babson College in Wellesley, Mass. "The average life span of a family business is 24 years," she says.

But experts such as Steven B. Enright, a financial planner in River Vale, N.J., say that building good family relationships and getting the children involved in the business at an early age can help. "I see a lot of clients bring their children into the business as young as 11 or 12 years old," he says. "It gets them interested at an early age."

Putting the kids on the payroll can also help them learn the value of a dollar, the importance of a job well done, business ethics, and perhaps computer literacy.

Consider Amnon and Rivka Michaeli, who brought their four children to work when they were growing up. The Michaelis own the Novelty Crystal Corp., a Queens, N.Y., firm that makes and distributes restaurant and supermarket supplies.

"My parents started the business on a shoestring and brought us to work on weekends and holidays," says the eldest son, Asher, now 46. As a result, three of the four children have chosen the family business as a career. As the elder Michaelis prepare to step down, the children are well-prepared to continue.

While there are a number of reasons to hire your children, it's important to follow the rules. "I could tell you some horror stories about clients who have really pushed [the rules] to the limit," Enright

says. For example, one doctor paid his two girls up to \$8,000 a year to work in his office, even though one of them did not even know where the office was. Clearly, claiming a tax-deductible salary

pay FICA and unemployment taxes.)

"There are special rules to support the traditional American ethic of a family working together," says Barbara J. Pope, an accountant and financial planner in Chicago. For example, federal law generally restricts companies from hiring children younger than 14, but that prohibition does not apply to nonfarm, family-owned businesses. Hazardous jobs, however, are off-limits to anyone under 18.

Set Fair Wages

Pay should correspond with the work. "When you do hire children, it's important to give them a day's wage for a day's work, no more, no less," Pope says. "That way they know their work is valued, but they are not being paid an artificially high amount." The federal minimum wage of \$4.25 an hour does not apply to children working for a business owned by their parents.

Steven Simon, who owns S&S Public Relations Inc., in Northbrook, Ill., employed his 19-year-old son at his firm for three summers to stuff envelopes, make deliveries, and do other odd jobs, paying him \$6 an hour. "I paid him exactly what I pay other summer help," Simon says.

Expect Quality Work

Don't pay your child just to kill time. That will cause morale problems with more-productive employees. "You can't think of your employees as baby sitters," Pope says.

It will send your child the wrong message, too. "You want them to establish a pattern of getting out of bed in the morning, getting to work on time, and developing a sense of responsibility," Simon says.

Simon recalls the days when he worked for his father, who owned a bindery on Manhattan's Lower East Side. "I used to drive in from Long Island every Saturday with my father," he



expense for work not actually performed would not pass muster with the Internal Revenue Service.

Here's what you should know:

Think About Taxes

The money you pay your child is deductible as a business expense for you. Federal income tax need not be withheld on the money if your child earns less than the standard deduction, which is \$3,900 for 1995; the deduction will rise to \$4,000 in 1996 as a result of inflation. Your child owes no tax on earnings under that amount but begins to pay tax at a 15 percent rate on any amount above that level.

Social Security tax (FICA) and unemployment tax need not be paid on any wages earned by a child if your business is a sole proprietorship or a partnership in which only the parents are partners. (Under other forms of business organization, the firm is required to

SMALL BUSINESS FINANCIAL ADVISER

says. "It is my fondest memory. After work, we would eat lunch together."

When he was in high school and college, Simon worked summers in the bindery. "When other kids headed for Europe, I went down there and worked," he says. "My father made Bibles. One of his accounts was the Salvation Army. The summer of my senior year in high school, I packed 10,000 Bibles in a building with no air conditioning at all."

Teach Your Child About Money

Even a young child can do something for your business. It might be washing dishes, addressing and stuffing envelopes, or cleaning the office. Paying your child a small sum for a regular weekly task can help him or her develop an understanding of how much things cost.

For example, Pope has her 12-year-old daughter, Jessica, categorize expenses on credit-card bills, verify some mathematical calculations, and summarize her results on Lotus. She also has advised a friend who set up his own legal practice to pay his son to prepare invoices on the computer.

If your child is eager to buy some item—in-line skates, a new bicycle, clothes, or a car, for example—you might

offer to pay half if he or she earns the other half. Earning money is a different experience from receiving an allowance, and sometimes it is a more valuable one.

One powerful way to teach the effect of compounding is to open an individual retirement account for your child. Your child is permitted to contribute up to \$2,000 per year in earned income.

Since most children prefer to hold on to their cash rather than salt it away in a retirement account, you can make the deposit for them. But you can't contribute more than he or she actually earned. Moreover, your contribution technically is a gift, Pope says. "But as long as you are under the \$10,000 annual limit, that wouldn't be a problem." (An individual may give away up to \$10,000 per person each year without incurring any taxes.)

Consider this: Suppose your child earns \$500 in a year and you contribute that amount to an IRA in her name. If that money earns an average of 10 percent a year for 60 years—without the bite for taxes—it will grow to \$152,241.

Establish Good Relationships

Professor Handler, who has done a great deal of research on the characteristics that contribute to successful

transitions in family businesses, says the key is the relationship between the owner and the child.

Many times that relationship was forged by the work they did together in the business, she says. Mutual respect and understanding are essential, she adds. "The father must respect the child."

That's how Simon remembers his summers at the bindery. "I liked working with my father," he says. "It was sort of a bonding situation."

Simon did not take over the family firm. "I didn't have the same skills my father had," he says. "He operated and repaired the machines himself, which is something I couldn't do." His father sold the bindery when Simon finished college.

But Simon credits his father and working at the bindery for his own ability to start and run a business. And although his son, Geoff, probably won't join him in the business, his daughter, Rachel, 12, probably will. "She comes in one Saturday a month, straightens up people's offices, stuffs envelopes, and does odd jobs," says Simon. "She is going to be a PR person."

Mary Rowland is an investment and personal-finance writer in New York City.

TAXES

Skepticism Over IRS's Receipt-Rule Change

The Internal Revenue Service recently attempted to do business a favor. As of this past Oct. 1, you no longer have to keep receipts for travel, entertainment, and gift expenditures below \$75. That's the first change in the receipt requirement since 1962, when the IRS directed businesses to save receipts for expenditures over \$25.

Says IRS Commissioner Margaret Milner Richardson: "This will make record keeping a lot less difficult for businesses."

Perhaps it will for some businesses, but a lot of accountants are telling their small-business clients to ignore the new directive and continue to save receipts even for sums smaller than the old requirement. "I'm advising our small-business clients to keep receipts, with substantiation notes, for everything above \$10," says Paul Offenbacher, president of Offenbacher and Company, a Silver Spring, Md., accounting firm.

It's a defensive strategy that would come in handy if the IRS ever called you in for a business audit. In an audit, explains IRS spokesman Anthony Burke, "you still have to substantiate expense-

account claims for items under \$75; you just won't need the receipts."

If you don't have receipts, however, you will have to show convincing documentation, such as a detailed business appointment calendar, to substantiate the expense claims. Says San Antonio accountant Jim Oliver: "You have to provide complete documentation on who, what, where, and when. The more documentation you have, the easier it is for an agent to accept your travel and entertainment expenses as being valid."

But nothing documents expenses quite as well as actual receipts. "We're 100 percent receipt-driven" and plan to stay that way, says Peter Gaudio, a principal with Gaudio, Aldrich and Associates, pension and insurance consultants in Santa Clara, Calif. "I travel a lot, and I'm not good at keeping daily diaries or logs," says Gaudio. He gets receipts for everything and writes all the required substantiation information on the back for "audit-proof record keeping," he explains.

Gaudio's company has been audited three times, and there has never been a problem. Says Gaudio: "Apparently, the

agents see all those receipts and figure there's nothing much there worth pursuing."

Although the new IRS receipt rule is for the most part being ignored by small-business accountants and their clients, it could be a welcome paperwork-reducing change for larger companies, says Richard Wintrode, senior manager in the Chicago office of the Ernst and Young account-

ing firm. "Most corporations," he says, "are continuing to require their employees to provide receipts for amounts less than \$75, along with detailed travel and entertainment vouchers, as a form of expense-account control." But, under the new IRS rule, after the receipts under \$75 have served their internal, cost-monitoring purposes, they can be thrown out to lighten up bloated filing systems.

—Peter Weaver

The author is a personal-finance writer in Bethesda, Md.



INVESTMENT CLUBS

Several Heads Are Often Better Than One

By Randy Myers

Thomas Kollie has, by most measures, made it. A research engineer at Oak Ridge National Laboratory in Tennessee for 35 years, he retired in 1994 with "a fantastic golden parachute"—his words—and now, at age 58, he's launching his own consulting business. A dedicated investor, his retirement nest egg is essentially built.

So why does Kollie, who holds a doctorate, toss \$150 into a kitty with 13 other people twice a year, and meet with them once a month to haggle over how to invest it? The answer lies in the allure of investment clubs: groups of people who invest together not just to make money but also to learn more about how and where to invest.

Kollie figures he's done both as a member, and now president, of the Atomic Optimists Investment Club, in Oak Ridge. "The main thing I like about it is that you go there, and different members bring up different stocks and different strategies for investing," Kollie says.

Gayle Olson, a State Farm insurance agent, agrees. He is a member of the Buttonwood Investment Club, in Minneapolis. It includes a CPA, an attorney, another insurance agent, a physician, two chief executive officers, two manufacturers' representatives, the retired controller of a finance company, and one other retiree. "I like the idea of having a group of people with a lot of different areas of knowledge to draw upon," he says.

Although most investment-club members invest far more money privately than they do through their clubs, it would be a mistake to discount their club activities as penny-ante. Heading into the fourth quarter of 1995, for example, the Atomic Optimists had club assets of about \$500,000, including a gain of just over \$100,000, or 25 percent, in the first nine months of 1995. (By way of comparison, the Standard & Poor's 500-stock index, the most common benchmark for professional investors, returned 29.73 percent through the first nine months of the year.)

Like many investment-club members, both Kollie and Olson belong to the National Association of Investors Corp. (NAIC), a nonprofit organization that provides members with a variety of support

services, including a monthly magazine, *Better Investing*.

About 275,000 of the NAIC's 330,000 members belong to one of more than 17,000 investment clubs, through which they invest, on average, about \$40 a month, or \$11 million a month altogether.

Much of this is smart money, too. In a recent survey of 627 clubs that voluntarily reported their results, the NAIC found that over their lifetimes, the average annual return was 12.27 percent, compared

of those years, too. The only year in which the men did best was 1994.)

"We think many women start out by saying, 'We don't know anything about this,' and become serious students right from the start," observes Thomas O'Hara, chairman of the NAIC's board of trustees and one of the organization's founders. "Men tend to fly by the seat of their pants for a couple of years. It's not until they have a few losses that they realize they've got to get busy and do a little studying."

Most investment clubs are organized as partnerships, and buy or sell decisions require a vote of the majority of the members present at each meeting. In addition, most clubs require that one of their members prepare a report on a stock and that the report be analyzed by the group before a purchase decision is made.

If you're interested in joining an investment club, ask yourself:

■ Are you willing to give others a say in how at least some of your money is invested?

■ Do you have the patience to watch a stock the club owns sink in value while you wait for the next club meeting—perhaps weeks away—to try to convince your partners that the club should sell?

■ Are you willing to commit several hours each month to analyzing potential investments and attending a club meeting?

■ And finally, does your investment style mesh with the club's? (NAIC-affiliated clubs, for example, typically look for stocks of growth companies—those whose sales and earnings are outperforming those of business as a whole—preferably when they are trading at the lower end of their five-year historical price range.)

If you can answer "yes" to all these questions, your next task is to find a club. Because both money and personalities are involved, few investment clubs take in strangers. So, unless you know a member willing to sponsor your admission into a group, your best bet may be to start your own club. The NAIC, which can be reached in Madison Heights, Mich., at (810) 583-NAIC (583-6242), can send you material to help you get started.

Randy Myers is a financial writer in Dover, Pa.



with 10.06 percent for the S&P 500. (However, only about 45 percent of the clubs outperformed the S&P index.)

What accounts for the success of so many investment clubs? In part it's their "get rich slow" investment philosophy, which encourages members to invest a fixed sum of money at regular intervals regardless of market conditions.

That strategy, known as dollar-cost averaging, ensures investors they're buying more stock when prices are low and less when prices are high.

But club members also insist that they do well because of the diversity of opinion that club members bring to bear on stock selection, and because of the discipline that results from group votes. An NAIC study of investment-club results found that clubs that included both men and women outperformed all-male and all-female clubs in four out of the five years from 1990 through 1994. (All-women clubs outperformed all-men clubs in four

MARKETING

Increasing Revenue With Repeat Sales

By Laura M. Litvan

To get a feel for the way many companies are rethinking the role of the sales force, consider what happened one day in June at Wal-Mart's headquarters, in Bentonville, Ark.

There, a group of Wal-Mart executives met with a sales team from a small Sun Prairie, Wis., company that had been supplying the giant retailer with shelving for its stores. The Wisconsin firm, Famous Fixtures, wanted to meet to review the relationship between the companies and see if improvements were needed.

Its sales team was a diversified group; each member represented one of the shelving maker's departments, including sales, engineering, production, and customer service.

During the discussion, a Wal-Mart executive ruefully commented about a concern he had that was unrelated to store shelving. He noted that Wal-Mart needed an organized system for constantly distributing a multitude of manufacturers' store displays among its various locations. If Famous Fixtures really wanted to make Wal-Mart happier than it already was, he half-joked, it would solve that problem.

Famous Fixtures responded by doing just that. The sales team brainstormed on the plane back to Wisconsin and later proposed a display-distribution system that was successfully tested at 20 stores. Famous Fixtures, a 250-employee subsidiary of shoe retailer Famous Footware, now is preparing to sell this service to Wal-Mart and other retail customers.

The outcome underscores what marketing experts say is a key to the future of sales efforts. Rather than focusing primarily on finding new customers, more companies will hunt for untapped revenue opportunities with the customers they already have.

Such thinking is already causing many companies, like Famous Fixtures, to redefine "salesman." In this case, the salesman was actually a team of specialized employees who worked together to home in on a customer's future needs.

There is a trend among firms toward building customer relationships that will

lead to more repeat sales, says Jack Criswell, president of Sales and Marketing Executives International, a trade group based in Cleveland. Some companies are not only moving toward team selling but are also pursuing other ap-



ILLUSTRATION: GEORGIA LEIGH McDONALD

proaches geared to empowering field sales staffs.

More firms are allowing salespeople to sign off on price breaks or make other final decisions during client negotiations, Criswell says. Also, companies are training their sales staffs to take a more consultative role, one in which they can advise clients on matters that go beyond selling or servicing products. "The days of the pushy type of salesperson are becoming a thing of the past," says Criswell.

The general idea of bonding with customers, commonly known as relationship marketing, has been central to the quality-management movement that began taking hold in the late 1980s. In fact, what

The future of many companies may lie in generating new revenue from the customers they already have.

is occurring at many companies and will drive sales in the new millennium is being caused in part by increased customer expectations resulting from company quality endeavors, many sales executives say. That and increased competition are

making customized customer approaches an imperative, they maintain.

"The quality effort of the '80s, global competition, and the opportunity on the part of customers to have an incredible variety of choice has resulted in steep competition," says Fred J. Allegretti, assistant vice president for sales at the Allstate Corp., the Northbrook, Ill., insurance company. As a result, companies large and small need to have a "sustainable competitive advantage" with customers to succeed, he says.

Companies with the most-successful sales and marketing efforts in coming years will probably share several common traits, say Martha Rogers and Don Peppers, co-authors of *The One To One Future: Building Relationships One Customer at a Time*.

Efficient use of existing computer technology will be one prevalent factor in success, they say. Companies already have the ability to store vast amounts of data about each customer's needs and preferences, and the strongest competi-

tors will be those who can use that data to differentiate customers by their needs and then find more ways to serve them, they say.

"An ideal salesperson of the future will combine selling with technology-based transactions," says Rogers, who with Peppers has founded Marketing 1:1, a consulting firm in Stamford, Conn.

Meanwhile, another helpful trait will be an ability to move away from striving to increase market share and toward getting more share of each customer's business,

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MARKETING

Peppers says. He suggests that one thing companies need to do is rethink the commission systems they use to pay salespeople, which currently tend to reward them for the closing of one sale. Companies will need to think of ways to reward a salesperson when a customer comes back again and again, Peppers says.

Many companies, either with or without full sales staffs, are putting the polish on new approaches to getting closer to customers. Here are some strategies that several small and midsize firms shared with *Nation's Business*:

1. Identify your best customers, and develop new incentives to get them to return repeatedly.

In 1993, Jimmy Branch, the owner of a Panama City, Fla., car wash, started tracking by computer the frequency of his customers' purchases, using their license tags to identify them.

Over time, he says, he determined that two-thirds of his customers came in only once or twice a year. What's more, the remaining customers—who washed their cars at Speedy Car Wash three or more times a year—were responsible for two-thirds of his revenues.

He used this information to completely revamp how he sells. For one thing, he created discounts to encourage lower-frequency customers to come in more often. For example, someone who has a car washed receives a coupon for \$3 off another car wash if it's within two weeks.

Other changes have been geared toward giving frequent customers special recognition and persuading them to buy extra services, such as a wax or undercarriage wash, when they visit. If they respond to some short questions about their car-service needs—the answers are stored in Branch's computer—they qualify for a few dollars off on the extra services.

Tracking customers by tag number has helped the car wash's salespeople individualize customer contact. Now, when any repeat customer pulls in and parks by the front door, a salesperson at the front counter enters the customer's tag number into the computer. The customer's name comes up on the screen, so the salesperson can greet him or her personally.

2. Build a company, from the ground up, around the idea of repeat sales.

In Westwood, Mass., a small delivery company, Streamline Inc., is about to launch a service based on the notion of

Many firms are putting the polish on new approaches to getting closer to customers.

getting as much additional business from each customer as possible.

Since its founding in April 1993, the 12-employee company has been testing the service, which delivers to customers' homes everything from groceries to dry cleaning to videotapes. When a customer comes on board, Streamline employees go to the person's home

and record on a portable computer all the types of household items the individual buys. At a service center, the company stocks a range of items bought by its customers.

Each week, customers can phone or fax in orders for what they need, and Streamline delivers the orders. The company provides a storage unit to customers, complete with a refrigerator and freezer, that typically is installed in the garage for deliveries when they're not at home. The company makes its money largely by charging a premium of 6 percent above retail prices.

During the test of the concept, Streamline found that its average customer buys about 3,600 items a year through the company, spending more than \$6,000. "Our object is not to get 10,000 customers and get \$100 out of each one," says Timothy A. DeMello, Streamline's chief executive officer. "Our primary goal is to own a customer relationship."

3. Help your sales force spend more time thinking about your customers' big-picture needs.

Senco Products Inc. of Cincinnati, a 1,600-employee maker of air-powered staplers and other heavy-duty fastening tools, found that its desire to turn sales-order takers into consultants meant empowering salespeople in some new ways.

Many members of the sales force spend time at the factories of manufacturers who use the company's products to build everything from housing components to recreational vehicles.

Two years ago, the company decided to remove a time-consuming function of its sales force—product maintenance for existing customers—and gave that responsibility to a support unit. Salespeople were trained to focus on the larger needs of customers, such as pointing out basic workplace safety problems on factory floors, says Jerry Carter, Senco's national sales manager for industrial business.

Another focus has been on differentiating customers based on their needs. The company keeps a detailed database on every customer contact and detailed profiles on each customer—right down to

their birthdays, if possible, Carter says. This has helped to facilitate better relationships with each sales contact.

4. View your efforts to improve customer relationships as something that is constantly evolving.

At Famous Fixtures, employees constantly look for ways to refine the company's approach to determining customers' future needs, says William A. Davis, the firm's vice president for sales and marketing. For one thing, the company still has six salespeople who are focused on finding brand-new customers. Over time they might take on an additional role in managing the diversified sales teams, Davis says.

Ultimately, the company views its efforts as being fluid, because that's what it takes to shift toward meeting each customer's needs, rather than trying to convince customers that what they need is what the company already offers. Adds Davis: "We no longer carry a catalog out and say, 'This is what we have that you can buy.'"

To order a reprint of this story, see Page 37.
For a fax copy, see Page 5.

On The Bookshelf

Here's a selection of books that examine ways companies can build closer relationships with their customers:

The One to One Future, by Don Peppers and Martha Rogers (Currency Doubleday, \$22).

How to Win Customers and Keep Them for Life, by Michael LeBoeuf (Berkeley Books, paperback, \$11).

Customers for Life: How to Turn that One-Time Buyer into a Lifetime Customer, by Carl Sewell and Paul B. Brown (Pocket Books, paperback, \$12).

Customer Bonding: Pathway to Lasting Customer Loyalty, by Richard Cross and Janet Smith (NTC Publishing Group, \$25.95).



Family Business

Expanding your firm's horizons; tips for enhancing decision making.

OBSERVATIONS

Fostering A Global Vision

By Sharon Nelton

"Go international, or die." That was the message pounded home by Alden G. Lank during a panel discussion at the recent annual meeting of the Family Firm Institute in St. Louis.

As president of the Family Business Network, headquartered in Lausanne, Switzerland, Lank applied a European perspective to the issue of globalization of family businesses. Founded in 1990, the FBN is an organization of more than 800 family firms around the world.

A second panelist, François M. de Visscher, spoke of globalization as both "a defensive and an offensive challenge"—defensive because more and more family businesses are seeing large, multinational companies getting into their markets, and offensive in terms of determining how to grow a business "and ultimately the wealth of the family in this global economy."

De Visscher is president of de Visscher & Co., Inc., an international financial consulting firm based in Greenwich, Conn., but he is also involved with his family's business, N.V. Bekaert S.A., founded in Belgium over

a century ago and now the world's largest independent manufacturer of steel wire.

Rounding out the panel was Bruce E. Grossman, whose family owns 17 Coca-Cola bottling plants throughout Mexico.

It's "imperative" for family firms to think in international terms, said Lank. Not only are they facing more competition on their own turf from foreign companies, he said, but many of them are suppliers to large corporations that are increasingly global.

Here are some of the suggestions the panelists offered for family-business owners who are thinking of going global.

■ Pursue strategic alliances with businesses in other countries. De Visscher said that although it's not necessary to seek out other family firms as partners, his family has "much better results with family-owned companies."

■ Involve family members in all your company's international joint ventures. This could mean a family member sits on the board of the partner company and travels between the two countries.

■ Don't underestimate cultural differ-

ences. "We [Latin Americans] like to be kissed and courted before we even sit down to think about doing business," said Grossman. He urged business owners to expand their cultural knowledge if they want to "play outside their own boundaries."

■ Take a long view. Sometimes there will be setbacks, de Visscher warned, and you must be prepared to weather a long-term process.

There are pitfalls to globalization but also enormous opportunities, the panelists said. Grossman called Latin America the "natural frontier" for U.S. business owners and said that Latin Americans "are all very anxious to do business."

To order an audiocassette of the panel discussion, send \$12 to ACTS, Inc., 14153 Clayton Road, Town & Country, Mo. 63017, or call 1-800-642-2287. Ask for tape No. FF9521, "Opportunities for Internationalization in Europe, South America, and the Pacific Rim," from the 1995 annual conference of the Family Firm Institute.



PHOTO: T. MICHAEL KEZA

PLANNING

How To Make Better Decisions

By Craig E. Aronoff and Joseph H. Astrachan

"There has to be a final decision maker," we hear from some family-business owners. "The buck has to stop somewhere!"

"What's important is that we are a team," we hear from others. "We take the time to reach consensus before going forward."

According to recent research, these two decision-making styles are the most common in family firms.

In the third annual Massachusetts Mutual Life Insurance Co. survey of family businesses, the Gallup Organization conducted 1,029 telephone interviews with family-business owners.

The study found that 34 percent of family-business leaders take the entrepre-

neurial approach: "It's my decision as the owner, so I'll make it." This approach is particularly common among first- and some second-generation family businesses and among smaller firms that have not yet completed a generational transition.

The most common approach to decision making in family firms, however, is characterized by efforts to reach consensus—48 percent. These family businesses report shared goals, high levels of trust, and low levels of conflict, and they tend to be smaller and typically have not yet made the transition from one generation to another.

The survey also identified a much smaller group of family businesses—6 percent—



PHOTO: GALLUP HERREFFS

Craig E. Aronoff, left, holds the Dinos Chair of Private Enterprise and Joseph H. Astrachan is associate professor of management and entrepreneurship at Kennesaw State College in Marietta, Ga. Copyright © by the Family Business Consulting Group, Inc.

PLANNING

that approach decisions in a different way: by discussing the issue and then taking a vote. It is worth noting that 53 percent of the firms in this group have lasted for at least three generations. And one-third of companies with more than 50 employees reported that they use the discussion-and-vote approach to decision making.

The survey results suggest to us that family businesses, especially those that hope to last and grow, should take a close look at how they make decisions.

The strong, independent decision makers who use the "back-stops-with-one-person" approach may or may not carefully gather information and input before reaching a decision. They generally do not have or do not use a board of directors. And according to the MassMutual findings, these firms typically had lower revenues and fewer employees than the surveyed companies overall and were the least likely to intend to pass ownership to the next generation.

We find that even when such businesses are passed to the next generation, successors often are unprepared for leadership because they've been denied decision-making experience.

As family businesses move to the second generation, decision making often evolves toward a sibling team. When consensus becomes the goal, "good feelings" rather than "good decisions" may become the norm. If that occurs, hard decisions may be postponed or avoided altogether. Poor decisions may be made to avoid hurt feelings.

In older, larger family businesses, with more participants and a greater variety of perspectives, reaching consensus is more difficult and time-consuming. At the same time, the risk of disappointing a family member is reduced because relations are not as close, or because no one person is so crucial for business success.

Which approach to decision making works best? Each can work if it is based on timely, rigorous, objective analysis of accurate and complete information. Nonetheless, you can improve decision making by building in mechanisms that provide objective feedback and accountability. Here are some suggestions for enhancing decision making in your family business:

■ **Expect conflict.** When discussions go too smoothly, be suspicious. Encourage decision-making participants to speak their minds, and do not shut down discussion by disagreeing before they have said their

piece. Worry about conflict or disagreement only when it paralyzes decision making, jeopardizes the implementation of decisions, or threatens to injure relationships permanently.

■ **Strive for openness and honesty.** While decision makers should never attack one another, they should not hesitate to air their perspectives and positions for fear of how another decision maker might react.

■ **Focus, as a group, on outcomes, not feelings.** It may be worth hurt feelings in order to make productive decisions. Encourage each participant in decisions to take responsibility for his or her own feelings. Others can only "make you feel" a certain way if you allow it or are looking for reasons to react emotionally.

■ **Involve several key people in decision making.** The average business in the survey had 3.4 key decision makers, with larger firms averaging more than 10 people in their key decision-making groups.

■ **Seek and use a wide range of advice and feedback, especially from boards of directors that include talented and credible outsiders.**

■ **Define trust in terms of honesty, forthrightness, willingness to carry out group decisions even when not agreed with, and placing the broader interest of the business ahead of one's personal desires.** Do not define trust as personal loyalty ("I can't believe you didn't support me on that.").

■ **When time is short and consensus cannot be reached easily, use voting to arrive at a decision.** Taking a vote and moving on can be the best way to deal with differences of opinion.

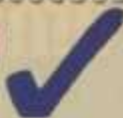
Strong family businesses are committed to going forward together even when there is disagreement or conflict. By involving more people in making decisions and by building a family culture that helps individuals take responsibility for their own feelings, you can increase the odds for both family and business success.

Craig E. Aronoff, Joseph H. Astrachan, and Sharon Nilton were members of MassMutual's Family Business Research Advisory Group, which guided the company's third annual survey of family businesses. The study discusses such topics as access to capital, the top priorities of family-business owners, and who has the most clout in family firms. For a free copy of the survey report, call 1-800-494-5433.



ILLUSTRATION: TROY THOMAS

MARK YOUR CALENDAR



Jan. 17, Washington, D.C.

"Managing People As Your Business Grows" is a breakfast roundtable offered by the George Washington University Center for Family Enterprise. Call (202) 994-9150.

Jan. 30, Southfield, Mich.

"How To Attract and Retain Key Nonfamily Employees" is a meeting that features *Nation's Business* columnist Craig E. Aronoff. Contact Rick Segal of the Family Business Council at (810) 353-5000.

Jan. 31-Feb. 3, Safety Harbor, Fla.

"Reconciling the Balance: Money, Work and Women," a program for women in family-owned business, features two nationally known consultants, Matilde Salganicoff and Freda Herz Brown. Call the Family Business Learning Institute of Metropolitan New York at (201) 461-7356.

Feb. 2-3, Grove City, Ohio

The Third Ohio Conference for Family Businesses focuses on such topics as enhancing relationships, understanding up-to-date business planning, improving communication, and estate planning. Call Business and Estate Planning Services Unlimited at (614) 871-0114.

Feb. 7-9, New Orleans

"Finding Common Ground in Uncommon Times," the 1996 Family Foundations Conference, is for trustees, staff members, and next-generation trustees. Topics include grant making, family dynamics and effective philanthropy, and foundation law. Call Rochelle Colclough at (202) 467-0421.

Feb. 26-27, New York

"Trust and Estate Planning for High-Net-Worth Individuals" is a conference for professionals, high-net-worth individuals and their families, and family office managers. Call the Institute for International Research at 1-800-999-3123 or, in New York state, (212) 661-8740.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to *Family Business*, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20003-2000.

New Strategies For Growth

By Roberta Maynard

Companies are devising innovative ways to help their franchisees flourish.

Growth. It's what franchising is all about. And in these days of intense competition and mature markets, franchisors are relentlessly pursuing new strategies to achieve it.

Exploring innovative ways to keep franchisees' revenues increasing is a major part of that effort. It's only logical: Tied as they are to their franchisees' success, what are franchisors to do to let their front lines underperform?

Franchisors are taking steps to communicate better with franchisees, help them move beyond revenue plateaus, ease their financial administrative duties, aid them in getting the most use out of facilities, and offer ways to turn seasonal revenues into year-round cash flow.

Following are strategies being adopted by growth-seeking companies of the '90s:

Carpe Diem With Cobranding

The saying "seize the day" has taken on a new meaning in franchising with a practice called cobranding, dual branding, or brand bundling. It occurs when two or more franchise companies arrange to have their separate brands offered at one location so that each company's outlet can serve a broader range of a customer's needs throughout the day.

A company that has, say, an afternoon and evening business may join with an outlet—usually in the same site—that offers morning fare. For example, Baskin-Robbins USA Co. lets franchisees buy and bring into their stores a franchise from Dunkin' Donuts, its sister firm.

Such an arrangement can help franchisees get better use out of the same square footage, retain customers by offering greater product variety, and attract new customers to whom they can cross-sell.

After operating a stand-alone store for 20 years, Burger King franchisee Richard Myers a year ago built and now operates a 4,500-square-foot combination Burger King and gas station/convenience store on a busy highway in Weatherford, Texas. "Both

stores should do as much as 20 percent better than either would do alone," he says.

Nontraditional Sites

A concept theoretically different from cobranding but sometimes used interchangeably with it is the nontraditional location.

Basically, in cobranding, two franchisees—or two franchises owned by one

Like cobranding, the nontraditional-site approach is a way to get the brand into new venues at less cost. "One reason for alternative distribution is the cost of real estate and drying up of sites," says Joe Genovese, executive vice president for business development for America's Favorite Chicken Co., which franchises Popeyes and Church's outlets. Of the 200 U.S. stores it plans to



PHOTO: STEVEN ASKE

Measurement tools developed for Molly Maid, Inc., franchisees such as Bruce and Kate Wallisch help track business performance, says Ted Kennedy, right, vice president of franchise services.

franchisee—share the space equally, and two strong brands pull in more traffic than one would by itself.

In a typical nontraditional-site arrangement, a franchisee leases space within another establishment. Examples are stadiums, hospitals, post offices, supermarkets, college campuses, airports, even riverboat casinos. Such a combination may mean a slimmed-down menu of offerings and a much smaller space.

open in 1996, says Genovese, half will be in alternative locations, up from 5 percent two years ago.

The benefits of opening a franchise at a nontraditional site are simple: The franchise can piggyback on the consumer traffic that's already there, and the cost of building and operating a site is generally lower than it would be at a separate site.

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development costs as much as one-third less than the costs for a free-standing AFC outlet.

The nation's fast-food leaders all regard the strategy as one of growing importance:

About 400 of Burger King Corp.'s 6,500 U.S. sites are nontraditional; 600 of McDonald's Corp.'s 11,000 U.S. outlets are in nontraditional sites. Subway has been most aggressive, with about 1,270 of its roughly 11,000 North American outlets in nontraditional locations, primarily convenience stores and gas stations. About half of the 25 stores the company opens each week are in such locations.

For franchisees, the practice has become more directly advantageous than it was a few years ago. At that time, a franchisor would lease space for a store inside another business, and the operator of that business would also run the new franchise.

Now, the new franchisee is more likely to be in charge. Says Bill Grimm, Baskin-Robbins' director of national franchise development: "More and more, we realize you need an experienced operator in the stores, so we try first to get existing franchisees to become the operators, provided they have demonstrated the ability to do it successfully."

Adding To Seasonal Revenues

For companies offering seasonal products or services, it can be a challenge to attract growth-minded operators, as tax-preparation franchisor Jackson Hewitt, Inc., knows. The Virginia Beach, Va., company's franchisees are in clover for three weeks in the spring, when 60 percent of revenues are generated. But with 100 percent of their business concentrated in a four-month period, what do franchisees do for income the remaining two-thirds of the year?

To offer franchisees broader revenue opportunities, especially year-round, Jackson Hewitt has developed a couple of key strategies:

First, an agreement with Wal-Mart allows franchisees to open offices in Wal-Mart stores, a shift from the majority of Jackson Hewitt locations, which either stand alone or are in shopping malls.

The company says its two types of arrangements with the retail giant (year-round tenancy and short-term tenancy during tax season) are expected to give the franchise a presence in 2,000 Wal-Marts by the year 2000, providing a lot of opportunities for franchisees.

"Establishing solid relations with national retailers is a good way to expand," says Thomas Czaplinski, Jackson Hewitt's vice president for diversification. "Once the details are worked out, we present a list of locations that franchisees can choose from."

In a second, related strategy, the company has developed a little co-branding of its own: a complementary service franchise called Copy, Pack & Ship, which franchisees can buy and operate side by side with their Jackson Hewitt sites. Managers are trained to operate both franchises.

There are nearly 100 Copy, Pack & Ship locations, 65 of them in Wal-Mart stores.

Jackson Hewitt says those franchisees have increased gross revenues by 50 to 100 percent in the first year.

Two complementary franchises can provide year-round revenue to seasonal businesses.

Aiming Higher

Getting home-based franchisees to move up to a new level of income and management structure was Decorating Den's goal when it began its executive franchise program two years ago.

The interior-decorating company, based in Bethesda, Md., identified those among its franchisees who were financially stable and had revenues of about \$150,000 per year. The participating franchisees then attended a four-day training session to learn how to take their businesses beyond a one-person operation.

Rebecca Shearn, a franchisee in West Chester, Ohio, went through the program. What she learned about hiring and managing people, about payroll matters and insurance, gave her the confidence to hire an administrative assistant, an installer, and two decorators.

"I was growing," she says, "but I was getting to the point that I couldn't do more—I was working 13-hour days, seven days a week. I could only handle so many sales calls and so much paperwork. Now, I am able to have a couple of days off."

In 1993, before she went through the program, her revenues were \$147,000. In 1994, revenues shot up to \$312,000, a jump she attributes to the expanded structure. For 1995, she projects revenues of \$400,000.

Altogether, 125 of the company's 1,000 franchisees have gone through the program. The 10 in the pilot program whom the company has continued to monitor show they have benefited: From October 1993 to October 1995, the group's average number of appointments per month rose from 13 to 24, the ratio of prospects sold to prospects encountered grew from 67 per 100 to 77 per 100, and the average sale increased to



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Decorating Den believes the program helps franchisees take a step that most would be reluctant to take on their own, primarily because of their lack of a business background. Before the program was begun, about 2 percent of its franchisees were expanding their businesses beyond a one-person operation. Since the program was established, more than 10 percent have made the move. The company plans to increase that level to 30 percent.

By visiting highly successful franchisees, Schwartz can see what makes them prosper and can use that insight in making suggestions to help lesser performers.

Schwartz's experience in the field also guides AlphaGraphics toward areas where further training or other support may be needed.

Tapping franchisee expertise has been adopted by other companies. Jackson Hewitt, for example, put multiple-unit franchisee Czaplinski on the payroll to handle the company's aggressive new diversification efforts.

A new Canadian company seeks its franchisees' input in a different way. The Mad Science Group, a franchisor that offers science programs, in-class workshops, and special events for children, regularly asks its franchisees to rate its performance as a franchisor.

The firm, which is based in Montreal and began franchising in 1995, requires that its franchisees, when they mail in their royalty checks each month, send a form on which they have evaluated eight categories of service, including field support, training, and equipment reliability

and efficiency.

Ariel Shlien, Mad Science's president, says that until now, most franchisors have not sought franchisees' feedback or listened to their needs. "They have treated their franchisees in a top-down, domineering way," he says. "That doesn't work anymore." The company's interest in franchisee input is not just lip service, either; salaries and bonuses for Mad Science corporate employees are tied directly to the evaluation results.

Tracking The Numbers

Developing measurement tools specific to a business can go a long way toward helping franchisees focus on what's important for success. Here's how Molly Maid, Inc., a residential-cleaning franchise based in Ann Arbor, Mich., put that idea into practice:

Because of Molly Maid's reliance on repeat business, the company's key measurement of franchisee growth is the cancellation rate—that is, the number of regular customers who cancel per 100 cleanings.

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Nontraditional sites such as a Popeyes in a Kroger supermarket can increase traffic for both the guest and host companies.

Sharing The Wisdom

Who better to help troubled or underperforming franchisees than one of their own who is successful? It's an approach embraced by AlphaGraphics, Inc., based in Tucson, Ariz. The company, a franchisor of more than 330 print shops, last July hired Joe Schwartz—for seven years a successful franchisee in South Brunswick, N.J.—as field-services consultant. Schwartz, who expects to visit 75 stores within a year, says he brings credibility to the job because he has faced many of the same problems that other franchisees have encountered and can deal with questions that other field staff members may not have the experience to answer.

Though the company provides each store with a mountain of statistics and financial information, he says, franchisees still want to know: "Am I on the right track? Is there anything more I can do to speed up the development of the business? Am I building my staff correctly? How can I build more sales in a certain profit center?"

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"We did an extensive analysis of franchisee growth and put together a computer model focusing on the cancellation rate," says Ted Kennedy, vice president of franchise services. The company found that the dynamic for growth is tied to generating enough work to keep an increasing number of two-person teams busy.

"If you can do eight in-home estimates per week at a 1 percent cancellation rate, you'll keep growing and growing to perhaps 20 teams and revenues of \$1.5 million," Kennedy says. "We found that when the cancellations reached 2 percent, the franchisee maxed out at 11 teams, and sales flattened. In essence, you're losing customers as quickly as you can get new ones."

The rate is such a key indicator that Molly Maid monitors each franchisee's cancellation rate every week. Such close attention helps Bruce and Kate Wallisch, husband-and-wife owners of a territory in Woodbridge, Va., keep their cancellation rate in line. When advertising, administrative, and other expenses are figured in, "it costs \$80 to get a new customer," says Bruce Wallisch, "and the average cleaning costs \$75. With a 20 percent return, you're not even making a profit on a house until you have cleaned it six times."

Guidance on core measurements such as

"Alert franchisors know their success ultimately depends on the growth of franchisees."

—Franchising Consultant
Robert Perry

this can help new franchisees like the Wallisches, who started their business two years ago, quickly get on the road toward profitability. In fact, with 15 teams, the Wallisches are already Molly Maid's largest-volume franchisee. The company's average franchisee has four teams, each producing an average of \$1,000 in revenue weekly.

Though some companies have long used such measurement methods, franchisors are paying more attention to these analyses than ever. "Typically, franchisors—except the very largest ones—haven't carefully tracked franchisees' performance," says Robert Perry, president of Success Strategies, Inc., a franchise-development consulting firm in College

Park, Md. "They might not have known a franchisee was in trouble until they didn't get the royalty payment. And there has been a fear in the past from the franchisees that they don't want the franchisor mixing in."

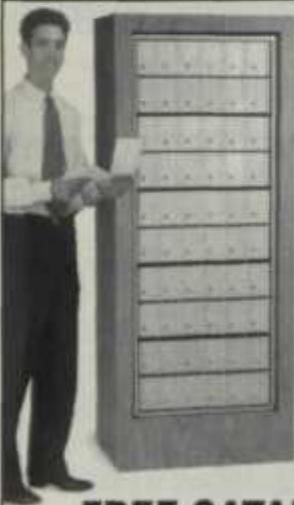
All that is changing, Perry says. "Alert franchisors know their success ultimately depends on the growth of franchisees, and they're looking more carefully to head off problems."

Opting For Day-To-Day Involvement

Some franchisors are taking support to a new level, getting involved in the everyday operations of their franchisees. Swisher International, a commercial-cleaning franchise in Charlotte, N.C., provides a toll-free telephone number to capture customers' calls that franchisees miss. If a customer calls a local outlet when the owner is out, the call is transferred automatically to the corporate office, where Swisher employees answer questions and even book appointments. Swisher's corporate office also handles all of the franchisees' billing to clients.

Speedy Sign-A-Rama, USA, based in West Palm Beach, Fla., seeks and lands large jobs for its franchisees. In a program available to all franchise owners, Speedy's director of national accounts, Bob Steckler,

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Franchising

SPECIAL GUIDE

gets commitments for jobs with national companies, which can't get access to individual franchisees.

Though the extra revenue can't be counted on as steady income, it has helped some franchisees stay in business. "In some cases, we had some stores that were struggling, frankly," says Steckler. "It helps them to get a job they don't have to sell, but only produce."

Since the program was established a year and a half ago, about 65 percent of Speedy's 250 franchisees have obtained work through it, and it will be accelerated in 1996, Steckler says. All Speedy franchisees have told the company they want to participate.

Letting Technology Do The Work

Increased use of technology is helping franchisees do everything from identifying new store sites to taking customers' orders.

Precision Tune is one of the latest franchisors to turn to technology as a way to improve communication, maximize franchisee profits, and generally make tedious tasks easier and less time-consuming.

The point-of-sale computer system recently offered to franchisees by the Leesburg, Va., car-care company serves many purposes. One important one is to get all franchisees on one system rather than four.

Communication with the company will be enhanced because policies and manuals can be updated and quickly disseminated, says Paul Bernstein, vice president of marketing and communications for Precision Tune.

Once all the franchisees are connected, the company will be able to collect daily sales numbers from the entire network of 500 centers with a single keystroke. Franchisees will communicate with one another via an electronic bulletin board.

The system was designed as a tool for marketing and customer service, too. Franchisees will have access to each customer's repair history by license plate number and can plan promotions accordingly. The system also will produce several kinds of reports tracking customer ZIP codes and showing market penetration, work that in the past was done manually.

Inventory control is another benefit, as the system will note when an item as small as a spark plug is due to be restocked. That will help franchisees cut the costs of carrying unneeded inventory, Bernstein says.

Adopting the technology was partly a response to market pressures and partly a move to attract good franchisees. "We meet with



PHOTO: E. MICHAEL REZA

Jackson Hewitt's vice president for diversification, Thomas Czaplicki, visits a site that also offers the tax-preparation company's Copy, Pack & Ship franchise.

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FRANCHISING

prospects every month. We're finding that in the '90s, they expect the market leader to have this kind of capability," Bernstein says.

In another example of increased use of technology, Molly Maid's new computer system serving the whole network has eradicated a "paper nightmare" for franchisees and lightened their administrative burdens, says Kennedy, the company vice president. The system tracks receivables, payroll, and scheduling of work, and it measures factors such as weekly productivity per team and profitability per customer.

America's Favorite Chicken uses state-of-the-art technology—specifically, geographic mapping information systems—to determine where its competitors' outlets are and where it should establish new locations, especially nontraditional ones.

"The days are declining when you drive around with franchisees looking at sites," says Genovese, the company's chief of business development. "Thanks to new technology, we can examine trade areas to guide franchisees about

locations. We use mapping systems that show how best to attack the market."

Cyberspace And Catalog Space

How could franchising—with its claim on as much as 40 percent of all retail sales—resist the lure of the Internet as a means to

expand? Franchise experts say it can't.

"We'll be starting to see that this year," says Michael Seid, franchise consultant and managing director of Strategic Advisory Group, a consulting firm in Hartford, Conn. Seid has several franchisor clients exploring just how to go about it.

The Internet—the ultimate nontraditional site—and catalogs will be viable distribution alternatives for many franchised goods and services, Seid says. Examples that come to mind are goods that customers are already accustomed to ordering for delivery, such as honey-glazed hams, cookies, candies, and flowers.

"The problem area for franchisors," says Seid, "is the encroachment, or exclusive-territory, issue. That, and the security problem for credit-card purchases."

How franchisees will directly benefit remains to be seen. "Franchisors may look at product ordered [via the Internet or a catalog] and see what ZIP codes it is shipped out of and give some remuneration to franchisees based on that," says Seid.

Finally, there's the traditional engine of franchise growth, multiple-unit development. But that's not for everyone. And with so many growth strategies available, it doesn't have to be.



PHOTO: BERN CALLAWAY

Expansion is fostered for Decorating Den franchisees such as Rebecca Shearn, center, who gained the confidence to hire Vivian Rose, left, and Millie Ramsey to help her in the business.

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Fast-Forwarding The Paper Chase

By Peter Weaver

Obtaining the required travel documents in time for a quick business trip out of the country can be a nightmare if you don't know how to go about it. You'll need a valid U.S. passport and, in many instances, a special business visa for the country you plan to visit.

Normally, it takes three to five weeks to get a new passport, and it can take eight weeks or longer to get a business visa. There's always the chance your application for either type of visa might not be accepted initially because it lacks complete information, certain supporting documents, the right type of photographs, or the right fees.

Enter a new breed of travel professional—the document expeditor. In crash situations, these red-tape cutters can reduce weeks of waiting for passports and visas down to as little as 24 hours.

"We have trained people who stand in line at the passport office and know where to go and whom to see at foreign consulates or embassies," says Catherine G. Wadsworth, director of marketing for Trivisa Visa Services Inc., a passport and visa expediting company in Washington, D.C. (Couriers can perform such tasks if they obtain certification and wear an identification badge as required by the passport office.)

"One of our people had to take off for Russia on the spur of the moment," says Carol Swize, office manager for Technologies Inc., a Houston-based oil-field-equipment company, "and Trivisa got all the necessary papers back to us in three days. Trying to do this on our own was just out of the question."

If you're traveling to Russia or China on business, there's an added complication. You need to be officially "invited" before you can get your visa. "For China," says expeditor Esther Park, owner-manager of Intercontinental Visa Services in Los Angeles, "you need an invitation from an authorized Chinese company or government entity."

Russia requires the same sort of invitation and visa, although they're easier to obtain than China's—especially if you know where to go and whom to see. "With a travel agent's itinerary showing the urgent departure date and confirmed hotel reservations," says Trivisa's Wadsworth, "we can

pay an additional \$100 fee to arrange for an invitation and get the whole thing done in 48 hours."

In addition to getting your passport and visa in a hurry, expeditors can help with all the tricky rules of the documents game. For example, to get a new passport, you need a certified copy of your birth certificate, and it has to have a raised seal from the issuing agency; a simple photocopy will not do. If you don't have a certified copy, expeditors

Expediting services can cut red tape and quickly get you the documents needed for an overseas trip.

processing by the U.S. Passport Office.

Of course, for fast passport and visa service, document expeditors add their own fees on top of the ones you have to pay the U.S. and any foreign governments. Fees vary depending on where you're going and the speed of service needed.

To get a new U.S. passport, for example, you pay the passport office \$65 for delivery within five weeks and \$30 extra for delivery within three weeks. The fee to renew a passport is \$55, plus \$30 for the faster service. On top of this, expeditors charge around \$80 to \$120 for processing and delivery within 24 to 48 hours.

Foreign governments' fees for business visas can range from \$30 to \$100, depending on where you're going and how fast you want to get there. Additional expeditor charges range from \$30 to \$120 based on the complexity of the case and the speed required.

For additional information and specific price quotes, you can usually find travel-document expeditors listed under

Passport and Visa Services in the Yellow Pages. Some travel agents, especially those who cater to business travelers, have working agreements with expeditors.

It may be possible to get all these travel documents on your own," says Michael Rae, president of Argus Ltd., a Rockville, Md., oil-and-gas equipment exporter with customers in Russia and Lithuania. "But a professional expeditor can greatly speed up the process and will make sure you don't make any costly mistakes."



PHOTO: T. MICHAEL KEZA

Document expeditors such as Catherine Wadsworth can cut the wait for a passport down to as little as a day or two.

can give you the phone number of the vital-statistics office in the state where you were born so you can call for quick-delivery service that can be charged to a credit card.

Document expeditors tell you how to take your birth certificate, payment, photos, and DSP-11 passport application form to a local post office or clerk of court. There, the form, your identification, and the documents are checked for accuracy and completeness, and your signature is verified. The application package is then sealed and sent by courier or overnight delivery service to the expeditor, who in turn runs it through fast-track

Where I Stand



A Report Card On Congress

Background: The 1995 session of the 104th Congress was the first session under complete Republican control in 40 years. Here's your chance to grade it on how well you think the GOP-led House and Senate did on major issues: Mark A for excellent, B for good, C for satisfactory, D for poor, and F for failure.

Results of this poll will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers below and fax this page to (202) 463-5636.

1	A plan for streamlining government operations and balancing the federal budget by 2002	¹ A ² B ³ C ⁴ D ⁵ F
2	Overhaul of the nation's welfare system, including work requirements, time limits on benefits, and greater control by states	¹ A ² B ³ C ⁴ D ⁵ F
3	Medicare reforms to avoid the program's bankruptcy, to limit spending growth, and to provide choices to senior citizens	¹ A ² B ³ C ⁴ D ⁵ F
4	Tax changes to stimulate economic growth, create jobs, and help working families	¹ A ² B ³ C ⁴ D ⁵ F
5	Regulatory changes to lessen intrusive, costly burdens on business	¹ A ² B ³ C ⁴ D ⁵ F
6	Elimination of federal bureaucracies by shifting program responsibilities to states	¹ A ² B ³ C ⁴ D ⁵ F
7	Reducing the total size and scope of the federal government	¹ A ² B ³ C ⁴ D ⁵ F
8	Fulfilling the GOP's Contract With America	¹ A ² B ³ C ⁴ D ⁵ F

Send Your Response Today!

POLL RESULTS

Readers' Views On Uncle Sam

Three out of four *Nation's Business* readers say the most helpful government reform in Washington would be cutting the layers of the federal bureaucracy they must go through to receive services.

In the Where I Stand poll in the November issue, readers were divided among four major complaints: Government takes too long to make decisions, it requires too much information, there's too much overlapping of jurisdictions among agencies, and agencies often don't or can't provide a satisfactory response to their concerns.

Here are the complete results of the survey:

FEDERAL SERVICES

Which of these services of the federal government does your business use most frequently?

Loans or loan guarantees	5%	General information	
Grants	1	and guidance	9%
Technical assistance	2	Don't use federal agencies	83

In which area do you find the federal government most helpful to your business?

Environmental protection	3%	Financial matters	2%
Export/import matters	4	Workplace health and safety	3
Labor/personnel/ employee benefits	2	None of the above	86

In which area do you find the federal government most difficult to deal with?

Environmental protection	28%	Financial matters	15%
Export/import matters	2	Workplace health and safety	15
Labor/personnel/ employee benefits	25	None of the above	15

What is your major complaint about federal agencies?

Take too long to make decisions	18%
Require too much information	28
Too much overlapping jurisdiction	20
Unsatisfactory response to concerns	21
Other	9
No complaints	4

What category of federal requirements takes up most of your time?

Preparing taxes	47%	Dealing with on-site	
Filling out other paperwork	31	inspectors	3%
Getting guidance on		Other	2
how to comply with rules	17		

What reform would be most helpful for your dealings with federal agencies?

Cut layers of bureaucracy	78%
Shorten turnaround time on decisions	4
Move most agency operations out of Washington	7
Adopt multiple-year budgeting to make federal funding more predictable	3
Other	8

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To Your Health

Managing well includes paying attention to your own health and that of employees; here is advice to help you do that better.

By Christine Kilgore Nowroozi

The Draining Of A Drug

Antibiotics—the drugs that cure most bacterial infections—are so overused and misused that many are losing their effectiveness, according to experts on public health and infectious diseases.

Before it was dissolved through federal budget cuts recently, the Office of Technology Assessment, which advised Congress on the scientific and technological effects of policies, called bacterial resistance to antibiotics a public-health crisis.

Because bacteria can alter their genetic makeup to resist drugs and can rapidly reproduce after developing that resistance, nearly all disease-causing bacteria now can fight antibiotics. Some common bacteria can resist all but one or a few of the drugs formulated to combat them. (The more than 100 antibiotics available are individually aimed at bacteria that cause specific types of illnesses.)

In recent years, many bacterial infections have become harder to treat. *Pneumococcus*—a bacterium that causes ear infections, pneumonia, and meningitis—is fast becoming resistant to penicillin, erythromycin, and other antibiotics. In some areas of the country, only vancomycin kills the bacterium.

Some patients have died because the bacteria causing their illnesses could not be destroyed by antibiotics.

Each time an antibiotic is used, bacteria become better able to adapt to it. Incorrect usage—the wrong dose, or an inappropriate length of therapy—makes the problem even worse, says Dr. Stuart Levy, a professor of medicine, molecular biology, and microbiology at Tufts University School of Medicine, in Boston.

Christine Kilgore Nowroozi is a free-lance writer in the Washington, D.C., area who specializes in health-related topics.

Levy wrote *The Antibiotic Paradox: How Miracle Drugs Are Destroying the Miracle* (Plenum Press, \$24.95).

By some estimates, antibiotics are taken inappropriately up to half the time. Patients sometimes demand antibiotics when they are unnecessary, Levy says, and doctors—out of exasperation or fear of losing the patient—sometimes give in.

Authorities such as Levy and physicians such as Dr. Bari J. Bett, who treats patients in an urgent-care clinic in Springfield, Va., and has spoken out on resistance to antibiotics, voice recommendations such as these:



PHOTO: JOSEPH LYNCH—MEDICAL IMAGES INC.

Lab tests that identify bacteria such as streptococci help doctors in prescribing antibiotics.

■ Realize that antibiotics treat only bacterial infections. Colds, flus, and up to 90 percent of sore throats are caused by viruses. About two-thirds of bronchitis cases and 95 percent of laryngitis cases are believed to be viral.

■ Discuss with your physician when, why, and for how long an antibiotic should be taken.

■ Take antibiotics for the entire prescribed course, not just until symptoms disappear. Otherwise, you could allow partially resistant bacteria to flourish.

■ Don't assume you're allergic to penicillin or any other antibiotic just because

it has caused abdominal discomfort or other common side effects, which differ from allergic reactions. An erroneous presumption of allergic reaction could needlessly rule out an antibiotic that could cure your illness.

■ Remember that the beneficial bacteria that cover the skin and line the intestine can be eradicated by the antibiotic that destroys harmful bacteria.

As bacterial resistance to antibiotics becomes more widely understood, physicians may be more inclined to take cultures to identify bacteria before prescribing antibiotics. Test results, generally available in 24 hours,

can help doctors more accurately target the choice of antibiotic.

"It's important to start antibiotic therapy quickly in an old, very sick person with a high fever and signs of infection," Levy says. "But in a strapping young adult who's doing fine otherwise, doctors should do the test and say, 'I'll call you [later] with the results, before I prescribe.'"

Dr. James M. Hughes, director of the National Center for Infectious Diseases, part of the Centers for Disease Control and Prevention, in Atlanta, has called for development of faster diagnostic tests along with better surveillance of local patterns of

antibiotic resistance.

In a recent study, Hughes found that doctors, partly because of uncertainty about the causes of specific infections, are increasingly prescribing more-potent, broad-spectrum antibiotics, which attack more kinds of bacteria. Although this practice increases the odds of stopping an infection, it also encourages faster development of resistance, Hughes maintains.

"Antibiotics are still life-saving drugs," he says. "But they have very specific indications, and they need to be used cautiously, or we risk approaching what we call the post-antibiotic era."

TOP-RATED BUSINESS PRODUCTS!

Nation's Business readers have selected their TOP 10 business products in the only way that counts... with their wallets! Through their purchases they've told us that these courses, documents, and strategies have helped them save time, generate income, and foster better customer and employee relations. In general, they've said that many of the products on the following pages have helped their businesses grow and prosper.

Listed below are the TOP 10 to serve as a guide for your own purchases. And we've introduced 12 new products to our regular offerings, three of which are featured on this page. Remember that every product shown in the grouping has undergone rigorous screening before it appears in Nation's Business. Remember, too, that every product we offer carries our 30-DAY SATISFACTION GUARANTEED pledge: If for any reason you decide to return a product within 30 days of receipt, you'll receive a complete refund or cancellation of your credit card charge. Order your examination copies today!

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10**

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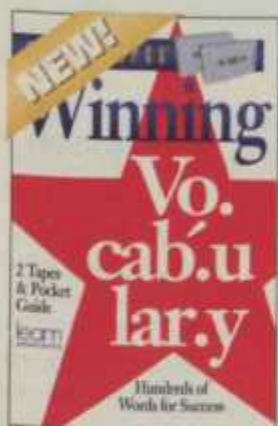
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Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Laura M. Litvan

BUSINESS OPERATIONS

Taking Charge

My company sells business training manuals, and we want to be able to accept Visa and MasterCard for orders placed by phone. However, we've been told that to achieve the required "merchant status," we must buy or rent an electronic terminal to handle account processing. We've also been informed by one provider that



the monthly fee to rent a terminal will be about \$100—far more than we can afford. Is there any way around this?
M.M., White Plains, N.Y.

By and large, use of these terminals is required by the banks that issue major credit cards and by so-called independent sales organizations, which serve as intermediaries in helping small firms obtain merchant status with banks.

The terminals help to safeguard against potential losses, says Craig Millington, an Illinois banker and a director of the Bankcard Services Association, in Kansas City, Mo.

Taking credit-card information over the phone can lead to errors such as transposing figures in the account number, Millington explains, but by using a terminal, the business person processing the transaction can verify the account number and other pertinent data while the customer is still on the phone.

But Millington and several other experts suggest that you should be wary of anyone who wants you to pay \$100 a month to rent a terminal. A "fairly typical" rental fee is about \$25 a month,

and you should be able to purchase a terminal and a printer for about \$400, says Millington.

He adds that "war stories" abound concerning players in the industry who try to charge small-business owners exorbitant rental fees, so be sure to shop around.

Also, although computerized processing is prevalent, we have found at least one exception. Electronic Card Systems Inc., an independent sales organization in Los Angeles, offers a credit-card processing system that uses a telephone keypad rather than a computer terminal. The company

GETTING STARTED

The Daily Grind

I am interested in distributing gourmet coffee to restaurants, specialty coffee shops, and others. Where can I go to gather information on the coffee industry?
J.A., Chicago

The Specialty Coffee Association of America offers a packet of information about its resources, including regional seminars for coffee distributors and retailers. Many of the group's services are available to nonmembers.

As an industry newcomer, you could purchase a reduced-rate membership for about \$100. You can contact the group at One World Trade Center, Suite 800, Long Beach, Calif. 90831; (310) 983-8090.

Personal Space

I am thinking about building and managing a multiple-space rental facility where people could lease space to store furniture, boats, etc. Where can I go to learn more about the industry?

R.E., Marshall, Minn.
(Similar query from R.B., Mankato, Minn.)

The Self Storage Association sells various publications, including a handbook on rental agreements and a book of industry statistics. Many of the group's publications are available to nonmembers at

can be reached by calling 1-800-554-4777.

As you weigh the options, remember that for each credit-card transaction, the merchant is charged a fee, which is based on how the transaction is processed; it can be higher if a computer terminal is not used.

A merchant who uses a terminal might pay about 30 cents per transaction, says Steve Fein, vice president of sales at Electronic Card Systems. His company charges merchants 75 cents for each phone-pad transaction.

To learn more about obtaining merchant status, see "Going Plastic," on Page 28 in the July *Nation's Business*.

slightly higher prices than members pay. Book prices range from \$15 to \$80. You can write or call the association at 4141 Crossgate Drive, Cincinnati, Ohio 45236; (513) 984-6468.

Prepare For Takeoff

I would like to start a travel agency. Whom do I contact for information about the industry?
E.A.Z., Blue Bell, Pa.

The American Society of Travel Agents has a variety of resources that could help you get your business idea off the ground. One is a book, *ASTA's Travel Agent Manual*.

It is free to members, \$250 for nonmembers. Contact the association at 1101 King St., Suite 200, Alexandria, Va. 22314; (703) 739-2782.

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TRANSITIONS

On The Block

I'm thinking about selling a business I have owned for more than 30 years so I can retire. Do you have any general advice on how a small-firm owner can locate and approach larger companies that might be interested in an acquisition?

J.R., Louise, Texas

Before you try to attract a potential buyer, you first need to determine the value of your firm, says Robert Fleshner, president of Incenter Strategies Inc., a Washington, D.C., business consulting firm. "Depending upon the particular industry in which your firm does business, there are certain to be very specific methods of valuation, including those based on cash flow, asset valuation, or earnings."

Fleshner, who advises companies on buying and selling businesses, says your next step should be to decide the terms upon which you will leave a company you have managed for so long. If you are necessary to the business, he says, you need to consider whether you would be willing to stay on as a consultant.

Another issue is how your employees might be treated by a new owner—and how much that matters to you.

Once you have addressed these concerns, it's time for research. Fleshner suggests combing through local business records and local and national newspaper and magazine articles to find out whether



there have been recent buyouts of businesses like yours. "Since you are looking for a larger company to purchase your company, it may be that a large regional or national company is purchasing companies similar to yours but has not yet reached your area," Fleshner says.

Sales of small companies often are carried out through business brokers, listed in the Yellow Pages. Find one that specializes in selling companies in your industry, Fleshner says, and check references before selecting one.

You can ask a broker to operate on a "no-name basis," gauging the level of interest in your business without telling prospective buyers that your business specifically is for sale. "This can be extremely valuable in assessing whether you will be able to get full value for your company," Fleshner says.

Joe Mancuso, president of the Center for Entrepreneurial Management Inc., in New York City, says that if you are unable to interest a larger company in buying your business, you may be able to find an individual buyer. As upper-income managers have been "downsized" out of corporate jobs, he notes, many have considered going into business for themselves, often by buying an existing firm. "That's creating a good environment for people looking to sell their businesses," Mancuso says.

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Free-Spirited Enterprise

By Michael Barrier

Seeing Where The Stars Blinked Out

When you're in Hollywood, the glamour capital of the world, what better way to see the sights than in a hearse? That was our thinking, anyway, when we were on the West Coast a short while back, and, fortunately, there was a 1968 Cadillac hearse waiting just around the corner from Mann's Chinese Theatre.

The hearse was there not just for us but also for a half-dozen of the morbidly curious, each of whom had paid \$40 to spend 2½ hours as a "mourner." It belongs to a company called Grave Line Tours, a niche marketer if there ever was one.

Its tours take you to the sites of several dozen murders, suicides, accidental deaths, and celebrity funerals.

Our long-haired driver, Steve (when we asked him for his last name, he said, "Let me think of something"), grew up in Iowa, but he clearly had found his spiritual home in Los Angeles. He had gotten his first tattoo, of Judy Garland, the day before we took the tour.

Among the hearse's first stops: the hotel where rock singer Janis Joplin expired in 1970 (a taped narration, with appropriate musical accompaniment, provided graphic details of her heroin overdose); the apartment building where Peter Lorre suffered a fatal stroke (the morning he was to

appear in divorce court); and the hotel complex where comedian John Belushi died.

A Divine Blessing

The very first "mourner" later became an attraction. That was Divine, the 350-pound transvestite star of such odd John Waters films as "Pink Flamingos." He died while in Hollywood to appear in the TV series "Married With Children." (As Steve said of that first customer: "He was nice enough to die on our tour route.")

"Mourners" sometimes contribute to the tour in other ways, as Steve noted outside the house

where gangster Bugsy Siegel was machine-gunned to death: "We had a delightful

mortician on the tour a couple of months ago, and he said that they found one of Bugsy's eyeballs on the front doorknob. That's pretty cool."

Indeed, it's hard not to feel like an attraction yourself when you're tooling through some of Southern California's

the horn. "It's really kind of fun and adventurous to be in this hearse."

The tour concluded, after a long loop through West

Hackett's house, and "I just kind of put two and two together." He started Grave Line in October 1987, with an investment of about \$10,000.

HOLLYWOOD

Hollywood, Beverly Hills, and Bel-Air—and after seeing the sites of a lot more deaths, like those of Jack Cassidy, Sal Mineo, Jack Webb, Peter Finch, and Humphrey Bogart—with a nod to the Hollywood street corner where William Frawley (Fred Mertz of "I Love Lucy") dropped dead. On request, the drivers will modify the tour to take in sites farther afield—the Brentwood site of the Simpson-Goldman murders, for example, or even the ranch where the Charles Manson "family" lived.

A Magical Misery Tour

Grave Line is the brainchild of Greg Smith, 43, a Kansan who discovered, while working as an emergency medical technician, that it didn't bother him to be around dead people. He tried funeral school in Los Angeles but didn't care for it and later worked for a few months as an assistant to comedian Buddy Hackett.

He had been putting together "my own little weird tour," he says, just for the amusement of friends who came to visit. Then he noticed the tour vans going by

Smith moved back to Kansas in 1992, leaving Grave Line in the hands of a resident manager, but he still returns to California every couple of months to check on the business. Grave Line is profitable but not lucrative, he says; it gives him a financial cushion that lets him pursue free-lance broadcast projects in Kansas City. "My goal," he says, "is just not to have to work for some jerk all my life."

In one respect, though, Grave Line may soon fall victim to its own success. Smith added a second hearse in August to keep up with the demand, but, he says, the hearses break down constantly. "We like the hearse idea," he says, "and everybody else seems to, but we're having to turn away too many people. We might even switch to a van."

He acknowledges that something rather special will be lost if he makes that change. When you take a Grave Line tour now, he says, "certainly it's the only time you're going to remember riding in a hearse."

If you want to become a "mourner" yourself while the hearses are still on the road, the number to call for reservations is (213) 469-4149.



toniest neighborhoods in such a conspicuous vehicle. "We get lots of people who will honk and wave," Steve said, while others are less friendly when they hit

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Editorial

Our Debt Deepens By \$482 Million A Day!

Compromise was coming hard, if at all, as the Clinton administration and the Congress struggled in the final days of the year over adoption of a balanced federal budget.

With strong public backing demonstrated in polls, Republican leaders were understandably reluctant to yield on the issue at the core of their push for basic change in the national government. And while President Clinton had finally accepted a seven-year timetable for eliminating deficit spending, he had key differences with many specific provisions in the GOP proposal.

The conflicts involved the extent and scheduling of spending curbs and tax relief. But underlying the details of dollars and schedules was the fundamental issue inherent in the balanced-budget debate: How should the American government be structured as the nation prepares to enter the 21st century?

Fiscal policy involves the questions of what government should—and should not—do in that vast, complex economic and social entity that is the United States.

The balanced-budget plan as approved by the Republican-controlled Congress calls for what is by Washington standards a revolutionary step—matching income and outgo.

The process would include fundamental changes in the way Washington operates—a rollback of the federal bureaucracy, the return of power to the states, and tax relief designed to strengthen the economy generally and families with children particularly.

Republican strategists agreed early on that those goals could not be achieved as long as the federal government persisted in policies that have seen the national debt increase by nearly 500 percent over the past 15 years alone. The cost of servicing that debt grows accordingly.

A chief author of the balanced-budget plan, Senate



PHOTO: BRAD MARKEL—GAMMA LIAISON

Chairmen of Congress' budget committees: Sen. Pete V. Domenici, R-N.M., left, and Rep. John R. Kasich, R-Ohio.

Budget Committee Chairman Pete V. Domenici, R-N.M., brought the issue down to basic terms: "America cannot continue to spend \$482 million a day more than it takes in."

By taking the steps necessary to deal with that problem, he said, "we can... change the course of the economic history of our nation."

Rep. John R. Kasich, R-Ohio, chairman of the House Budget Committee and another major force behind the balanced-budget drive, said the message he was receiving from the American people as the effort progressed was this: "Don't stop. Do

not give in. Don't cave in. Please keep it going. Balance the budget. Save my kids. Fix America."

Under the comprehensive budget measure that Congress passed, federal spending over the seven years would fall to \$850 billion under the level that would have been reached under existing policies.

President Clinton vetoed that bill, unfortunately. His action was no surprise. He had repeatedly said he would do so on the ground that the measure went too far in curtailing several programs. His veto set the stage for the year-end negotiations aimed at reaching a compromise.

Budget talks were still under way as this issue of *Nation's Business* went to press, and there might have been a breakthrough before you read this. But if the discussions falter over policy and political differences, they could be resolved quickly by addressing one simple and valid question that Domenici said is at the heart of the debate:

"Do we want strong money and a strong economy, lower interest rates, and our standard of living going up?"

The answer should be obvious, particularly to any federal official planning to run for re-election anytime soon.

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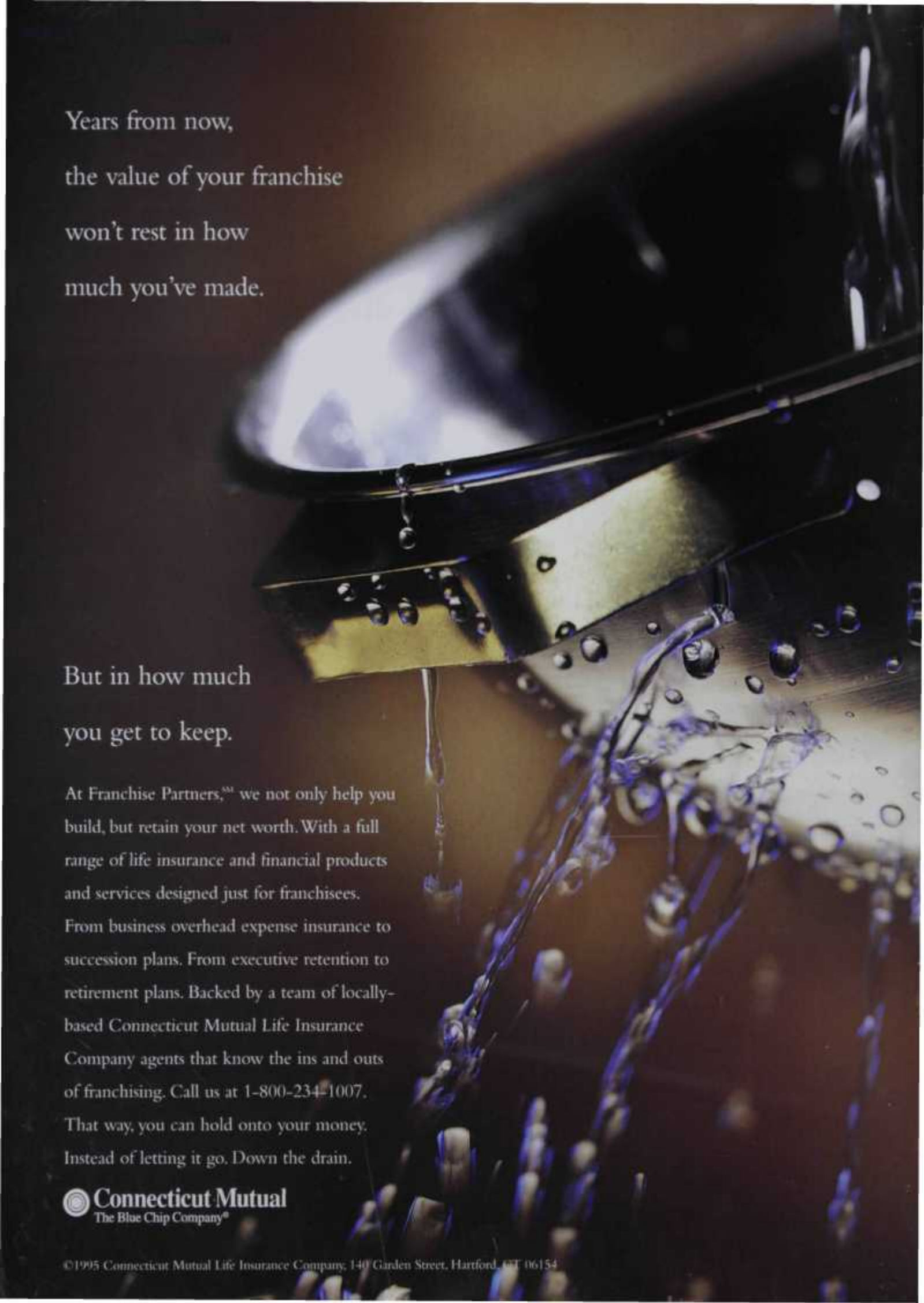
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